STUDY OF THE VIABILITY OF SMALLER CANADIAN AIRPORTS

Developed for Consideration by:

PROVINCIAL DEPARTMENTS RESPONSIBLE FOR TRANSPORTATION

Prepared by:

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August 2002

Sypher

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Foreword

The purpose of this study was to identify the current operating and financial position of smaller airports in Canada. To achieve this, 26 airports were selected representing a wide range of traffic levels and governance types.

The 26 airports involved in the study completed extensive questionnaires and interviews. For these smaller airports, the study required a significant commitment by the airport management. We appreciate their assistance in completing this project.

MULTI-JURISDICTIONAL STUDY OF SMALLER AIRPORTS

Table of Contents

Section Page

Foreword

Executive Summary i

I. INTRODUCTION 1
- A. Background 1
- B. Objective 1
- C. Methodology 2

II. THE SMALLER AIRPORTS TODAY 3
- A. Traffic at the Study Airports 3
- B. Management of Smaller Airports 10
- C. Economic Impact 11
- D. Facilities and Development at the Smaller Airports 19
- E. Summary 24

III. THE FINANCES OF SMALLER AIRPORTS 27
- A. Revenues and Expenses 27
- B. Cash Flow 34
- C. Assets and Liabilities by Type 37
- D. Summary 39

IV. THE FUTURE FOR THE AIRPORTS 41
- A. Changing Regulatory Environment 41
- B. Elasticity of Demand 42
- C. Pro Forma Financial Forecasts -Airports Grouped by Traffic and Form of Governance 45
- D. Capital Investment Requirements 63

V. ASSESSMENT OF VIABILITY 67
- A. Introduction 67
- B. Summary Pro Forma – Airports Grouped by Financial Performance 67
- C. Financial Viability 71
- D. The Way Forward 77

List of Appendices

A Study Terms of Reference

B Airport Survey Form

C List of Government and Stakeholder Interviews

D ACAP Criteria

E Stakeholder Perspectives

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Executive Summary

Introduction

Many small airports in Canada are concerned with their financial viability as a result of devolution from the federal government and major changes in the air carrier industry. Today, many stakeholders in the aviation industry are concerned about the viability of smaller airports, noting that they face:

- Insufficient revenues to cover operating expenses;
- Limited sources for funding capital projects;
- Potential higher costs as a result of an increased regulatory burden for emergency services, security, winter maintenance, wildlife control and other changes to the regulatory regime; and
- Reduced revenues as a result of the consolidation of airlines and traffic diversion resulting from increased fees and taxes on aviation.

To address these concerns, the provincial departments responsible for transportation commissioned a study to assess the future viability of smaller Canadian airports. Transport Canada was invited to participate, but declined.

Stakeholders are concerned about the viability of smaller airports

Using data from on-site interviews and data collected from 26 airports of under 200,000 annual enplaned/deplaned passengers, the study objectives were to:

- Identify the airports' current financial situation, and how that situation has evolved over the past few years;
- Forecast the future financial position and viability of these airports; and
- Identify potential problem areas for these airports.

The airports that form the basis of the study are:

Alma (QC)	Fort St. John (BC)	Peace River (AB)	Stephenville (NF)
Brandon (MB)	Gaspé (QC)	Prince Albert (SK)	Sydney (NS)
Charlottetown* (PE)	Goose Bay (NF)	Prince Rupert (BC)	Val D'Or (QC)
Cranbrook (BC)	Grande Prairie (AB)	Rouyn-Noranda (QC)	Yarmouth (NS)
Dawson Creek (BC)	Jasper Hinton (AB)	Saint John* (NB)	Yorkton (SK)
Deer Lake (NF)	Kapuskasing (ON)	St. Leonard (NB)	
Flin Flon (MB)	Muskoka (ON)	Sault Ste Marie (ON)	

* National Airport System (NAS) airport

These airports vary in size and governance model, and are representative of a much larger group of small airports in Canada.

Most of the airports were able to provide all the information requested. In some subject areas, such as accounting for assets, the information was not available. In the report, we have identified the number of airports reporting in each area to provide guidance on the completeness of the information.

Interviews were also held with a broad base of stakeholders in the aviation industry, including the provinces, municipalities, Transport Canada, airport and airline associations, various user groups and economic development agencies.

Current Operations

The review of the traffic, management, economic impact and facilities at the study airports indicates that:

Over the past 12 years, traffic has been declining at the majority of these smaller airports

- Passenger traffic at the study airports is primarily business travel, but overall passenger traffic at the majority of these airports has been declining – an average of 16% over the ten year period from 1989 to 1999 and a further decline of 9.4% from 2000 to 2001;
- Cargo is important to the study airports with seafood, medical supplies, courier packages and equipment parts being moved to serve local and national needs;
- The airports serve a broad public interest including extensive medical evacuation activity, search and rescue, policing and forest firefighting operations. They also provide feeder traffic that contributes to the financial strength of the larger airports;
- The airports have a substantial local economic impact - there are 1,400 direct jobs in total at the 23 airports that reported employment, with airline employees making up the largest single element;
- The airports have made significant efficiency gains since the transition from federal operation. Airport human resource levels have been reduced by an average of 31%;
- The facilities at the airports are generally in good condition, with the exception of roads and vehicle parking areas;
- The facilities were mostly built during a period of airline regulation and are typically oversized for the aircraft types using the airports today; and

- The Federal Airports Capital Assistance Program (ACAP) has been meeting the needs of the smaller scheduled service airports for rehabilitation capital for airside safety and related projects. However, some airports have concerns about future funding levels.

Financial Situation

A review of the finances of the study airports in 2000 shows that:

- With half of the airports having introduced, or about to introduce passenger based fees (Airport Improvement Fees – AIF's or Passenger Facility Charges -- PFC's), revenues increased significantly over the past few years;
- Although operating costs have been reduced, primarily through staff reductions, labour costs will remain the largest single component of the operating cost base;
- With grants and subsidies included, 15 of the 24 providing detailed financial information showed an operating loss in 2000;
- Transitional funding from Transport Canada has been assisting this group of airports, but this funding is running out; and
- Excluding grants and subsidies, 18 of 24 airports providing detailed financial information were operating in deficit in 2000.

Eighteen airports showed a cash loss in 2000 without external financial support

Future Viability

Looking at the mechanisms to achieve viability - increased efficiency, increased revenues and traffic growth, the ability to achieve self-sufficiency for many of the smaller airports does not look promising:

- Substantial efficiency gains have already been achieved and are reflected in the current financial positions of the airports;
- Revenue growth at many of the airports has already been significant in the past several years;
- New federal regulations have the potential to drive up airport costs and reduce revenues; and
- Given the history of declining traffic levels, significant traffic growth appears to be unlikely for most of the smaller airports.

To evaluate the potential viability for the smaller airports and the factors that influence viability:

- 5, 10 and 20 year forecasts were prepared for the airports, grouped by size and type of governance for a variety of traffic scenarios; and

- Using 2001 data, the airports were grouped according to whether they were:
    - Viable, that is with sufficient revenues to cover operating costs and debt service on forecast capital investments (net of ACAP contributions);
    - Self-sustaining – with sufficient revenues to cover cash operating costs; and
    - Not self-sustaining – airports with insufficient cash flow to meet either of the above two tests.

Exhibit 1 summarizes the financial pro forma for airports grouped by traffic and governance type for the zero passenger growth scenario. Exhibit 2 is a summary of the viability grouping.

Based on the most recent data, and adjusting for ground rent for the NAS airports when applicable, there are thirteen airports that are not self-sustaining, including one NAS airport. Only two of the non-NAS not self sustaining airports have an AIF/PFC in place. To evaluate the impact of this type of charge on viability, an estimate was prepared of the yield to each airport from a $10 and a $20 AIF/PFC, and viability was recalculated. With a $10 AIF/PFC, only one of the thirteen airports becomes self-sustaining, and none viable.

The NAS airport in this group is not self-sustaining at current traffic levels even with a $10.00 AIF/PFC if ground rent is considered. Put another way, traffic will need to be higher at the time the ground rent starts if the airport is to be self-sustaining or viable.

Only 4 of the study airports are likely to be viable

There are nine airports that are self-sustaining, including one NAS airport. The NAS airport in this group has a $10 AIF in place, but at current traffic levels, there is insufficient revenue to bring the airport to viability if ground rent is payable. To evaluate the impact of AIF/PFC levels on the potential viability of these self-sustaining airports, the impact was assessed of a $10 and $20 charge on airports that currently do not have these charges. The introduction of a $10 fee at all of these airports brings three to potential viability.

Four of the airports are viable. The factors affecting viability are:

- Most significantly, passenger traffic volumes. The viable airports have, on average, over five times the traffic of the not self-sustaining airports, and 1.5 times the traffic at the self-sustaining but not viable airports;

- The second significant factor is the magnitude of the AIF/PFC. Under the hypothesis of a uniform $20 AIF/PFC being applied to all the study airports, 13 of the 26 airports are projected to be viable at current traffic levels. At the currently not self-sustaining airports, however, this implies average per enplanement fees of $62.00 (plus the $24 security fee per round trip), making it difficult to maintain current traffic levels;

Exhibit 1. Summary of Typical Pro Forma Financial Forecasts for 2010 for the Smaller Airports. Zero Growth Scenario

	Municipal with less than 50,000 e/d Passengers	Authority with less than 50,000 e/d Passengers	Municipal with over 50,000 e/d Passengers	Municipally Owned, Authority Operation with more than 50,000 e/d Passengers	Authority with more than 50,000 e/d Passengers	National Airport System Airports
E/D Passengers (Average)	23,028	7,500	147,000	66,000	94,429	190,000
Aviation Revenues						
Landing Fees	$126,868		$370,891	$33,989	$409,133	$772,671
Terminal Fees	$47,250		$232,012	$11,990	$283,334	$647,946
Aircraft Parking	$5,660		$15,452	$4,549	$9,254	$11,932
AIF/PFC	$63,743		$0	$548,990	$472,000	$802,837
Fuel Sales	$155,816		$17,611	$12,915	$281,943	$7,126
Other	$9,667		$544	$0	$135,741	$67,963
Total Aviation Revenue	$409,004	$182,724	$636,510	$612,432	$1,591,405	$2,310,473
Commercial Revenues						
Concessions	$21,712		$139,665	$49,231	$197,628	$332,610
Land Leases	$33,506		$45,169	$14,987	$131,614	$124,536
Vehicle Parking	$10,656		$170,711	$42,651	$136,834	$218,071
Office Rent	$8,426		$74,093	$29,748	$14,994	$98,293
Taxi	$23,642		$6,303	$21,722	$0	$18,834
Other	$4,749		$47,993	$130,538	$52,727	$10,641
Total Commercial Revenues	$102,690	$92,736	$483,933	$288,877	$533,797	$802,983
Other Revenues						
Subsidies & Grants	$0	$320,818	$0	$0	$22,434	$0
Interest	$7,119	$35,145	$7,573	$39,585	$19,835	$74,361
Sales of Assets	$0	$0	$0	$0	$0	$0
Other	$50,158	$5,804	$19,905	$8,927	$213,197	$100,000
Total Other Revenue	$57,277	$361,766	$27,477	$48,511	$255,466	$174,361
Total Revenues	**$568,972**	**$637,225**	**$1,147,920**	**$949,819**	**$2,380,668**	**$3,287,816**
Expenses						
Salaries/Wages/Benefits	$307,746	$206,441	$420,639	$529,095	$673,305	$1,333,706
Training	$1,486	$4,220	$3,374	$18,245	$387	$7,383
Materials,Parts,Supplies,Repairs	$96,214	$49,307	$171,210	$40,237	$106,725	$476,417
Facility Management Contracts	$37,639	$91,448	$134,415	$0	$114,330	$135,982
Professional Services	$9,762	$11,449	$47,277	$60,924	$86,441	$97,830
Property Taxes	$10,111	$90,113	$0	$8,335	$97,230	$151,207
Utilities/Fuel	$83,725	$73,421	$108,192	$70,342	$340,945	$242,856
Depreciation/Amortization	$100,000	$46,568	$150,000	$200,000	$299,455	$318,091
Insurance	$35,400	$44,670	$64,298	$61,749	$74,367	$269,253
Interest Expenses	$0	$594	$0	$0	$4,159	$0
Other Expenses	$88,848	$77,626	$317,288	$143,467	$518,360	$130,000
Airport Chattels/TC Lease	$0	$0	$0	$0	$0	$201,485
Total Expenses	**$770,931**	**$695,855**	**$1,416,691**	**$1,132,393**	**$2,315,705**	**$3,364,209**
Net Income	**($201,959)**	**($58,631)**	**($268,772)**	**($182,574)**	**$64,963**	**($76,393)**
Less Subsidies & Grants	$0	$320,818	$0	$0	$22,434	$0
Net before Grants	($201,959)	($379,448)	($268,772)	($182,574)	$42,529	($76,393)
Add back Deprec./Amortization	$100,000	$46,568	$150,000	$200,000	$299,455	$318,091
Cash Flow before Grants	($101,959)	($332,881)	($118,772)	$17,426	$341,985	$241,698

Exhibit 2. Summary of Study Airports Grouped by Viability, based on Most Recent Financial Statements

	Not Self Sustaining Airports Average	Self Sustaining Airports Average	Viable Airports
Number of Airports (including NAS)	13	9	4
Average E/D Passengers[1]	**19,979**	**69,654**	**104,537**
Financial Pro Forma[1]			
Airport Improvement Fee	$20,776	$222,847	$172,211
Other Aviation User fees	$427,887	$489,608	$642,133
Commercial Revenue	$82,858	$364,273	$491,914
Subsidies & Grants	$66,450	$127,825	$222,102
Other	$26,868	$39,966	$505,258
Total Revenues	**$624,839**	**$1,244,519**	**$2,033,618**
Salaries & Benefits	$393,916	$417,907	$516,094
Property Taxes	$24,321	$67,235	$54,998
Depreciation	$10,353	$2,762	$445,087
Interest	$99	$572	$942
Other Expenses	$597,544	$631,117	$631,974
Total Expenses	**$1,026,232**	**$1,119,594**	**$1,649,095**
Net Income	**($401,394)**	**$124,924**	**$384,523**
Less Subsidies & Grants	$66,450	$127,825	$222,102
Net before Grants	**($467,843)**	**($2,901)**	**$162,421**
Add back Depreciation	$10,353	$2,762	$445,087
Cash Flow before Grants	**($457,491)**	**($138)**	**$607,508**

1. NAS Airports are excluded from passenger averages and average financial pro forma.

- Labour costs, which have already been reduced by 31% on average since transfer from Transport Canada, could not be reduced enough to achieve self sufficiency at the airports that are currently not self-sustaining;
- Property taxes are not a significant factor in viability on average, although at a few airports they are a substantial cost element;
- Commercial revenues per enplanement at the not self-sustaining airports and the self-sustaining airports are higher than at the viable airports, indicating that it is not a failure to generate commercial revenues that has contributed to the lack of viability; and
- The type of governance does not appear to be a significant factor in viability. Although more authority airports are self-sustaining or viable, they also tend to be the airports with more traffic.

The NAS airports in the study are a special case. Their future cash flows will be limited by the requirement to pay rents. With ground rents in place, the ability of the smaller NAS airports to borrow to finance capital development will be very limited, and will be insufficient for viability in the long term.

The Way Forward

Since devolution, most of the smaller airports have reduced their costs and increased commercial and aeronautical revenues. The transition to local operation of airports has clearly demonstrated that local operation is efficient, and that regardless of a potential need for ongoing external financial support, local operation should be the cornerstone of any future structure for airport operations. Nonetheless, many smaller airports in Canada will continue to need external financing for operations and capital over the long term.

Local operation is efficient, but external financial support will be required for many small airports

Recognizing that external financial support will be an ongoing requirement for many of the smaller airports and that there is a need to continue the transition to a business-like footing, there should be a national dialogue on external support and business enhancement.

I. INTRODUCTION

A. Background

Many small airports in Canada are concerned with their financial viability as a result of changes in the air transportation industry over the last few years. Some of the causes of the potential financial difficulties are related to issues arising from the devolution of airports by the Federal Government, and others relate to changes in regulations and the air carrier industry. Smaller airports have indicated that they face:

- Insufficient revenues to cover operational expenses;
- Limited sources for funding capital projects;
- A lack of access to any assistance program, such as ACAP, for funding ongoing operations and maintenance;
- Potential increased costs for emergency services as a result of CAR 308;
- Additional requirements under the Winter Maintenance Standard and possibly under other sections of the Aerodrome Standards and Recommended Practices;
- Reduced revenues as a result of the consolidation of airlines; and
- Potential for reduced revenues from traffic suppression as a result of new security fees.

Stakeholders are concerned about the viability of smaller airports

To address these concerns, the 10 provinces commissioned this study to assess the future viability of smaller Canadian airports. Transport Canada was invited to participate, but declined. The Terms of Reference for the study are provided in Appendix A.

B. Objective

The objective of the study was to collect and analyze data from 26 smaller airports of a variety of sizes to:

- Identify their current financial situation, and how that situation has evolved over the past few years;
- Forecast the future financial position of these airports;
- Assess the future viability of these airports; and
- Identify potential problem areas for these airports.

The airports that form the basis of the study are:

Alma (QC)	Fort St. John (BC)	Peace River (AB)	Stephenville (NF)
Brandon (MB)	Gaspé (QC)	Prince Albert (SK)	Sydney (NS)
Charlottetown* (PE)	Goose Bay (NF)	Prince Rupert (BC)	Val D'Or (QC)
Cranbrook (BC)	Grande Prairie (AB)	Rouyn-Noranda (QC)	Yarmouth (NS)
Dawson Creek (BC)	Jasper Hinton (AB)	Saint John* (NB)	Yorkton (SK)
Deer Lake (NF)	Kapuskasing (ON)	St. Leonard (NB)	
Flin Flon (MB)	Muskoka (ON)	Sault Ste Marie (ON)	

* National Airport System (NAS) airport

The airports are considered as representative of the smaller airports in Canada with different traffic levels and governance models.

C. Methodology

The 26 airports selected as case studies were surveyed, primarily in person, using a detailed questionnaire form to attempt to make the data as consistent as possible. Appendix B contains the survey form. Not all the airports were able to report on every item requested in the questionnaire. The data collected was input to a common database and analyzed as the basis for the study.

In addition, interviews were held with a broad base of stakeholders in the aviation industry, including:

- Ten provinces;
- Transport Canada Regional Offices and Headquarters;
- Aviation Councils in BC, Alberta, Saskatchewan, Manitoba;
- The Airport Managers Council of Ontario;
- The Atlantic Canada Airports Association;
- The Air Transport Association of Canada;
- The Canadian Airports Council;
- Atlantic Canada Opportunities Agency;
- Western Diversification; and
- Canadian Economic Development Quebec.

Appendix C is a detailed listing of these interviews and Appendix E provides stakeholder views as summarized from the interviews.

II. THE SMALLER AIRPORTS TODAY

A. Traffic at the Study Airports

The sample of airports surveyed comprises a wide range of facilities ranging from a local general aviation airport, not serving any commercial scheduled traffic to more sophisticated regional facilities that are part of the National Airports System (NAS) and that are supporting commercial traffic and serving larger urban areas.

Each of the study airports individually serves annual traffic volume of less than 200,000 enplaned/deplaned (E/D) passengers. Exhibit II-1 illustrates the passenger traffic levels at the study airports.

All study airports had less than 200,000 E/D passengers in 2000

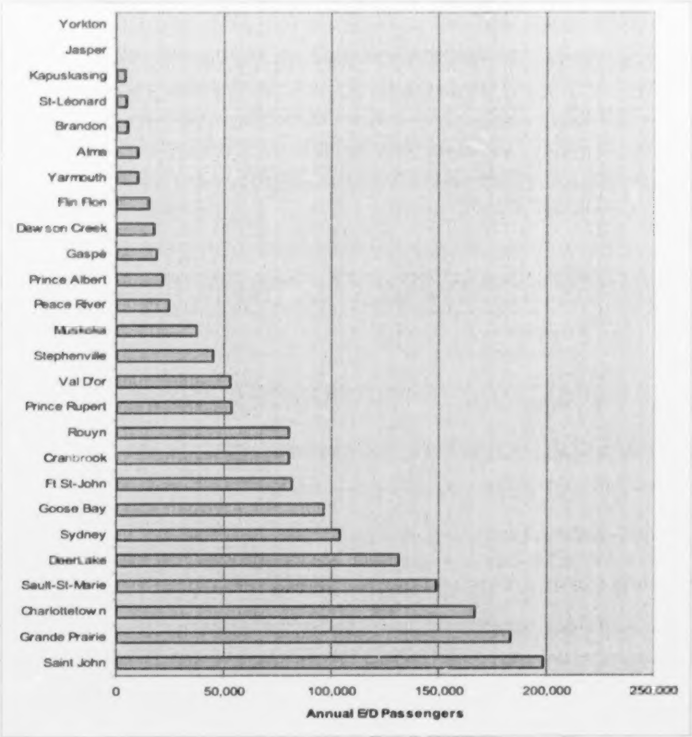

Exhibit II-1. Enplaned/Deplaned Passengers at Study Airports (2000 data)

Annual E/D Passenger Traffic

Of the 26 airports surveyed, 23 reported passenger traffic for 2000 and actual or projected traffic for 2001(the on-site data collection was carried out from November 2001 to January 2002). These 23 airports showed a decline in passenger traffic of 9.4% from 2000 to 2001. As Exhibit II-2 shows, this is consistent with a longer term trend of declining traffic at the majority of smaller airports. For 12 of the study airports where long-term data was available, the average decline in traffic was 16% from 1989 to1999.

Over the longer term, passenger traffic has been declining significantly at the majority of smaller airports

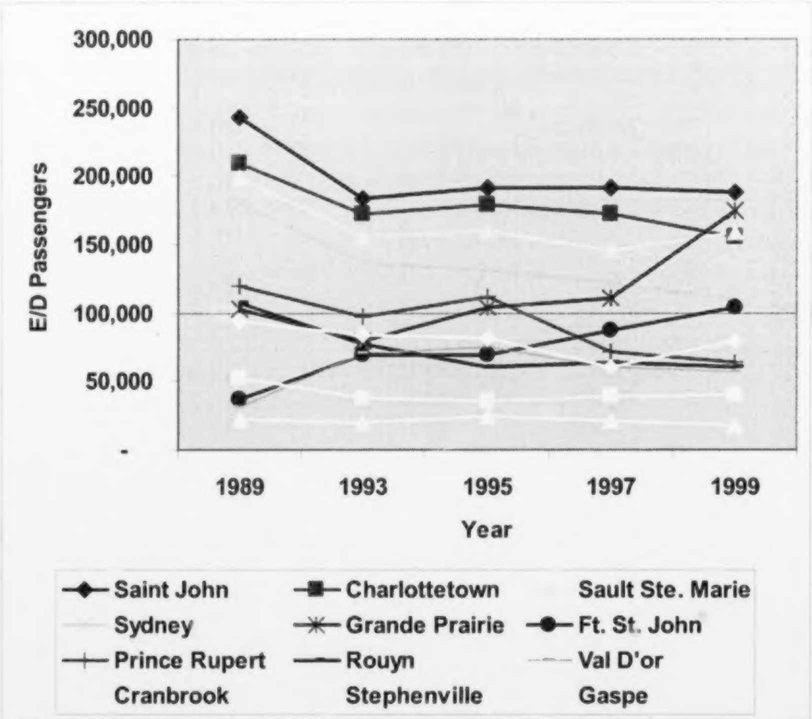

Exhibit II-2. E/D Passenger Traffic at 12 Smaller Airports 1989-1999

Some of the smaller airports are growing, however, and face the problem of strong traffic growth and how to find the capital to fund necessary improvements.

Percent Connecting Passengers

Of the 26 surveyed airports, ten reported having no connecting passenger traffic. Eight airports did not have this data available and the remaining eight reported serving a small amount of connecting traffic. Exhibit II-3 summarizes the proportion of connecting passenger traffic reported by these eight smaller airports.

This low proportion of connecting traffic may be seen by the airports as a risk reducing factor since origin/destination passengers tend to be more stable customers for an airport than connecting traffic who may choose to connect elsewhere. The low level of connections is no real surprise since we would not normally expect smaller airports to serve as important hubs for connecting traffic.

Most of the study airports are, however, important spokes to the larger National Airport System (NAS) airports and provide feeder traffic that financially supports the larger airports.

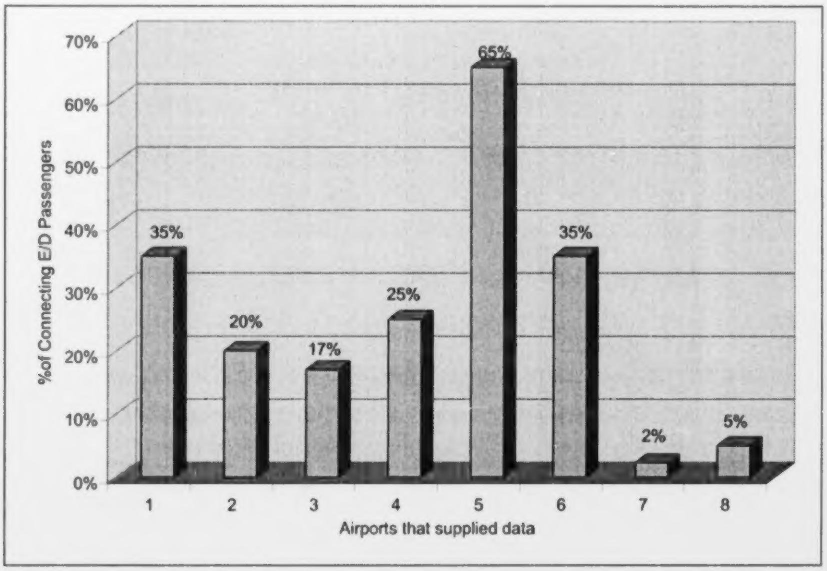

Exhibit II-3. **Connecting Passenger Percentage in 2001 at Eight Reporting Airports With Connecting Traffic (10 have no connecting traffic)**

Percentage of Business Travellers and Tourists

Exhibit II-4 depicts the percentage of business travellers served by the study airports. Nineteen airports reported this data. It is clear that the smaller airports constitute an important link to the regional industries for business travellers: the proportion of business travellers ranges from 20% to 95% with an average of 55%.

Passengers at the smaller airports are primarily business travellers

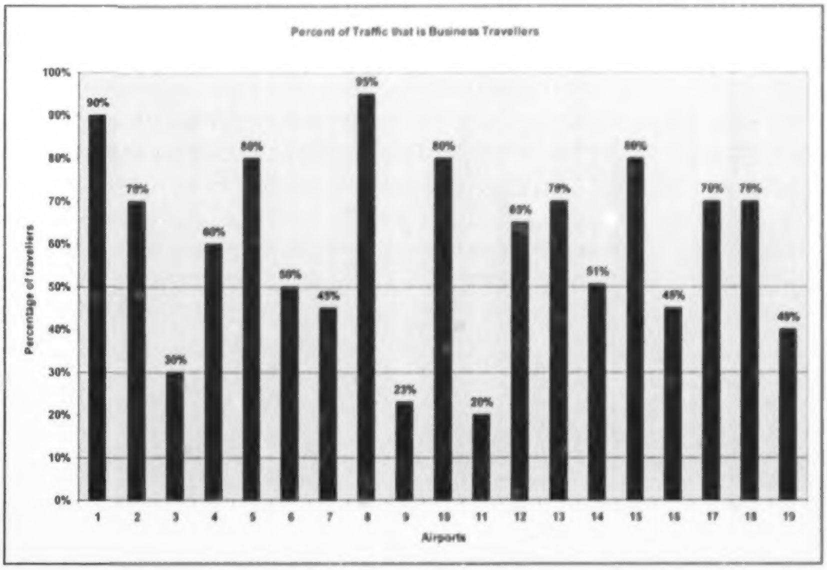

Exhibit II-4. Percentage of 2001 Passenger Traffic that Travelled for Business (19 Airports Reporting)

Exhibit II-5 illustrates the percentage of passenger traffic that originated outside the region of the airport (inbound traffic). An average of 32% of travellers originated from outside the communities and regions served by the study airports.

Aircraft Movements by Carrier Type 2001

Exhibits II-6 and II-7 respectively show the distribution of aircraft movements by type of activity for airports serving 50,000 e/d passengers or less and for airports serving more than 50,000 e/d passengers a year. The category Commercial Non-Passenger includes all other commercial operations - cargo, crop dusting, courier, etc. The proportion of aircraft movements related to scheduled passengers is relatively similar in both instances. The non-scheduled/recreational activity is proportionally much greater at the smaller airports.

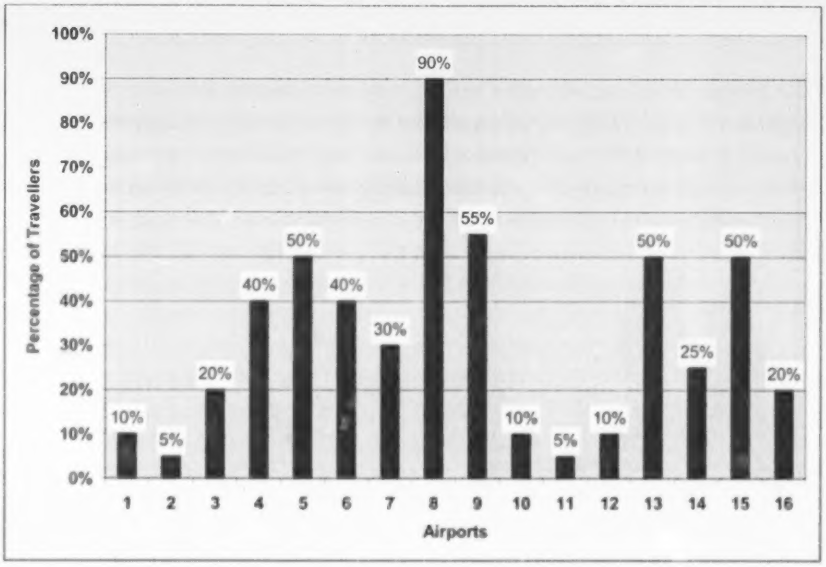

Exhibit II-5. Percentage of 2001 Passenger Traffic that Originated Outside the Region (Inbound Traffic) (16 Airports Reporting)

Inbound traffic makes up a significant part of the traffic at the smaller airports

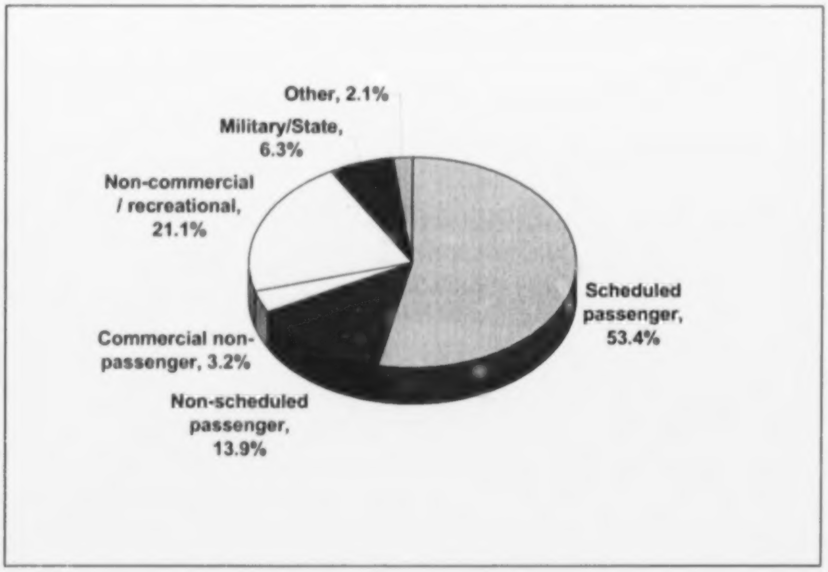

Exhibit II-6. 2001 Composition of Aircraft Movements by Type of Activity. Study Airports with E/D Pax < 50,000

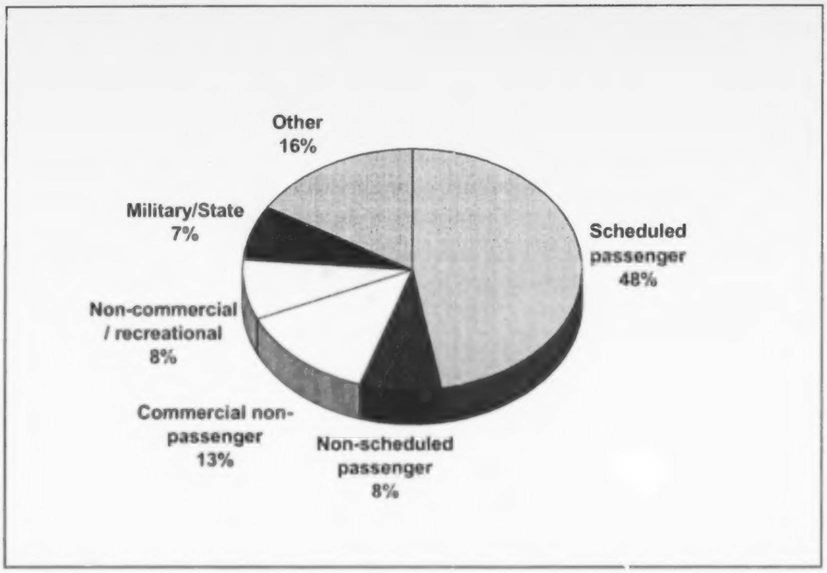

Exhibit II-7. 2001 Composition of Aircraft Movements by Type of Activity. Study Airports with E/D Pax > 50,000

Apron Traffic

Exhibit II-8 illustrates the number of hours of the busiest day of the week when more than one commercial aircraft are using the apron, for the 17 airports that reported such occurrence. Four of these airports reported variances in the number of peak hours between summer and winter. In three of these cases, the summer activity was much larger than winter.

Cargo

Twelve of the 26 airports reported cargo activity. Eleven reported having dedicated cargo aircraft service. The total annual cargo tonnage carried varies significantly and ranges from 3 tonnes to 580,000 tonnes.

The cargo activity mainly supports local industries. Some of the types of reported cargo are:

- Seafood;
- Courier packages - parts for equipment, medical supplies;
- Flowers;
- Mail;

- Pets; and
- Perishables for the north.

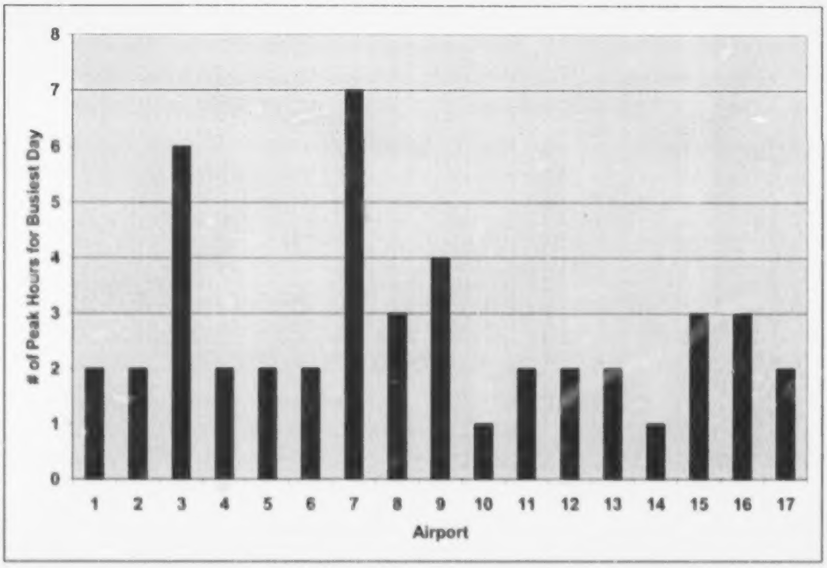

Exhibit II-8. **Number of Hours with More Than One Commercial Aircraft on the Apron (2000). Busiest Day of the Week (17 Airports Reporting)**

Exhibit II-9 contains examples of the types of cargo services at the surveyed airports.

Exhibit II-9. **Examples of Cargo Services at Study Airports. 12 Airports Reporting**

Type of cargo aircraft	Frequency
Embraer 110	20/week
MU-2	20/week
King Air and Beech-1900	6/week
F28	11/week
Dash 8-100, AB-320, Convair, B-737	136/week
B727	5/week
King Air	14/week

B. Management of Smaller Airports

Governance Profiles and Characteristics

Half of the study airports are municipally operated

As shown in Exhibit II-10, 13 of the 26 study airports are managed by municipalities. Airport authorities are responsible for the management of 11. The remaining two airports are respectively the responsibility of a regional development corporation and an airport society with contract operations by a services subsidiary of a major international airport authority. Only one of the airports has never been owned nor managed by Transport Canada.

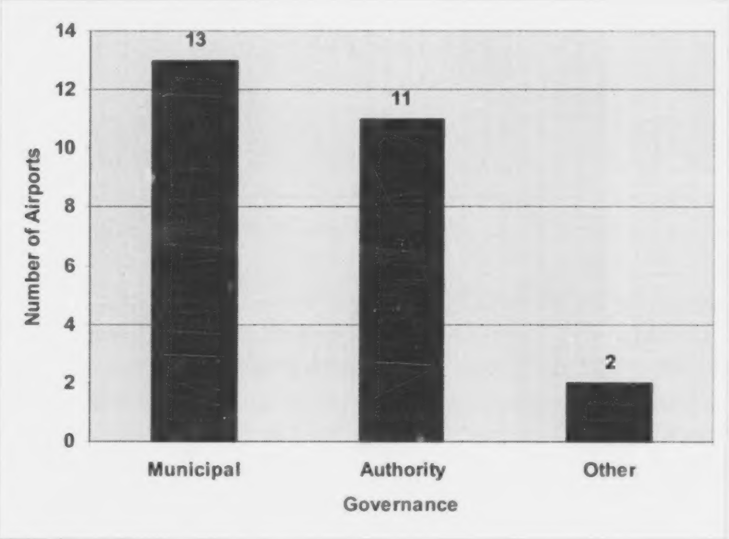

Exhibit II-10. Distribution of Surveyed Airports Based on Type of Governance

Governing Bodies

As shown in Exhibit II-11, top executives of most municipally managed airports report to the City Council. There is one exception, where the management of a municipal airport reports to a regional commission.

The management of each of the authority managed airports reports to a board of directors composed of members that represent the stakeholders of the community and the region served by the airport.

The airports representing the "Others" category report respectively to:

- A district council via a commissioner of planning and economic development and an airport implementation committee; and
- A limited company management from the airport society.

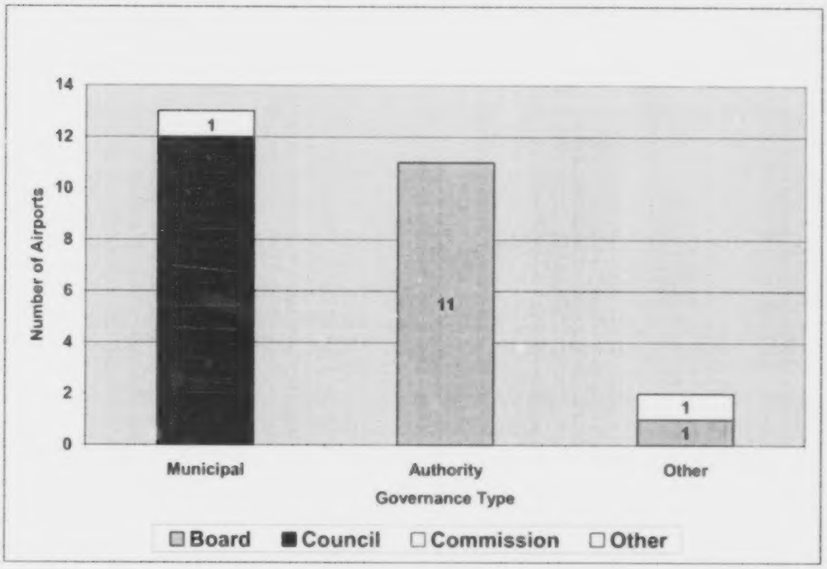

Exhibit II-11. Reporting Relationships by Governance Type

Passenger Traffic and Type of Airport Operation

Of the 26 airports, 22 provided detailed passenger traffic information. Generally, as Exhibit II-12 illustrates, the smaller of the study airports tend to be municipally managed (average of approximately 44,000 e/d passengers per year) and the larger are managed as authorities (average e/d passengers 81,000 per year).

C. Economic Impact

Airport Employees

An analysis of the evolution of employment within the different airport administrations shows that most airports have rationalized their manpower since the transfer of ownership.

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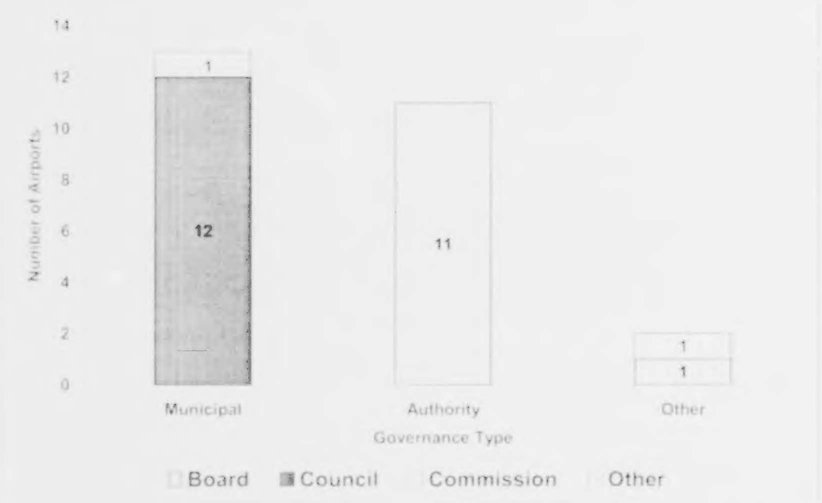

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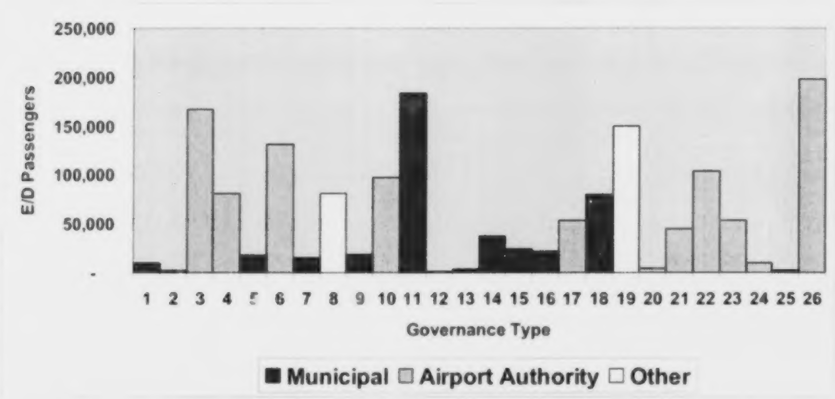


Exhibit II-12. **2000 Enplaned/Deplaned Passenger Traffic and Type of Governance**

Average staff levels have been reduced by 31% since transfer

Exhibit II-13 shows the evolution of the airport employment prior and after the devolution by the Federal Government. The total number of employees of the airports went from 320 to 222. The average number of employees per airport went down from 12.3 to 8.5, a decrease of 31%. Two of the 25 airports reporting staff levels had an increase in staff. Since devolution, these airports have started offering their customers services such as janitorial, refuelling and other ramp services.

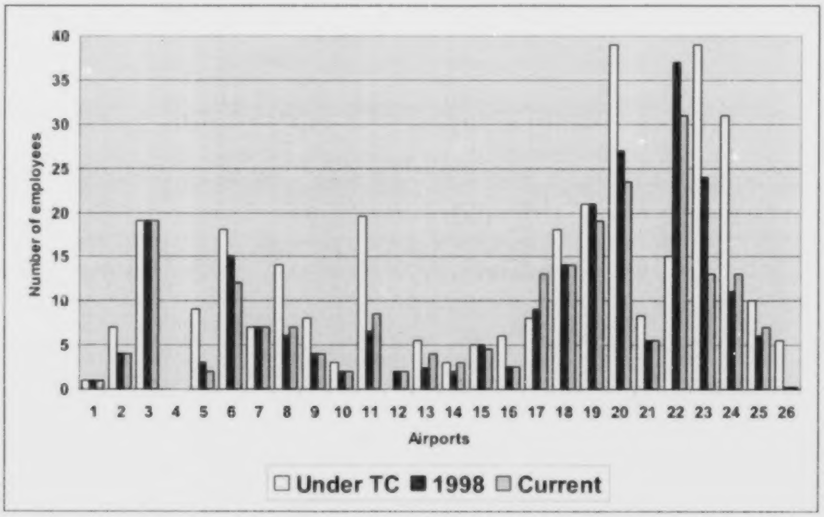


Exhibit II-13. **Evolution of the Number of Airport Employees Under TC and Current (25 of 26 Airports Reporting)**

An Interesting Example

In the early 90's, there were 36 staff at the airport. By the time of handover from Transport Canada, this had been reduced to 18. Today there are 9 staff, and this group, in addition to maintaining the airport, contracts out its services to gain revenues of $300,000 per year for the airport.

Employment at Airports

Airports are significant local employers

The study airports are important employment generators in their respective regions. Twenty three reporting airports have a total airport related employment of over 1,400. Exhibit II-14 illustrates the number of direct jobs at each airport.

Exhibit II-15 clearly shows that the greatest individual contributors to the employment at the airports are the airlines, airport administration and aircraft maintenance. The "Other" category includes all other employment on the airport – freight forwarders, flight kitchens, couriers, etc.

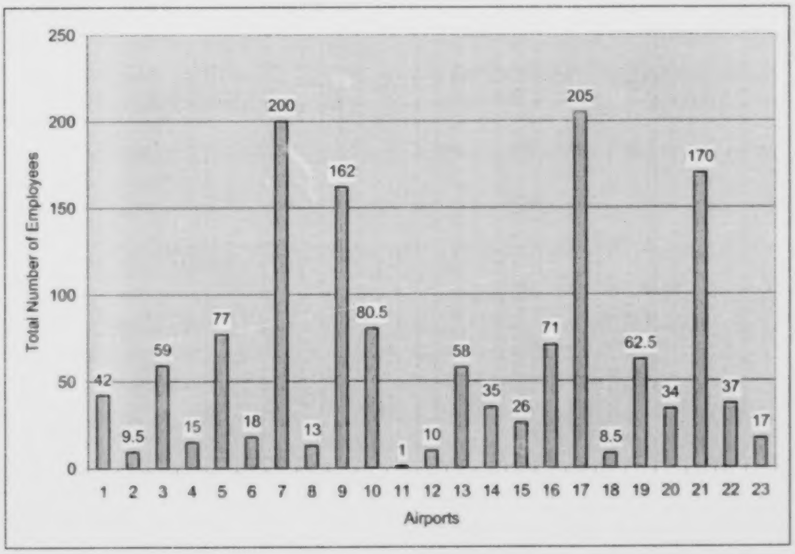


Exhibit II-14. Total Direct Employment at the Study Airports (23 Airports Reporting)

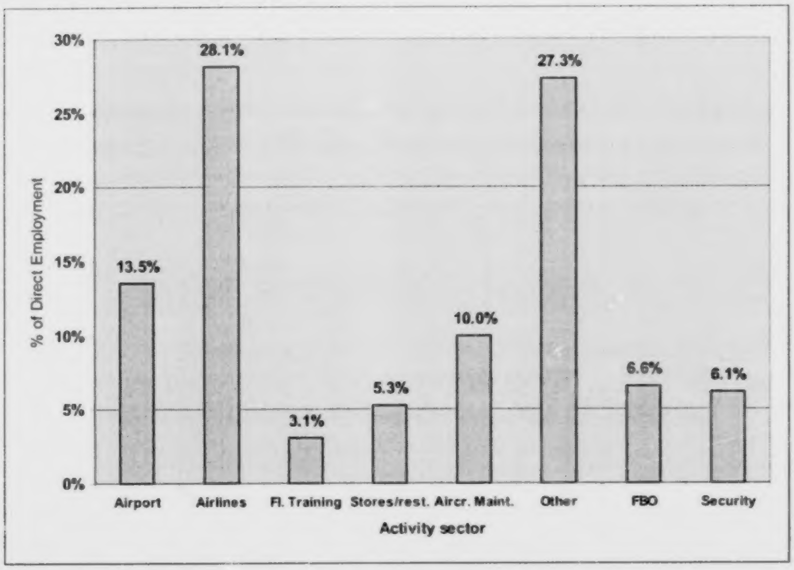


Exhibit II-15. Contribution of Sectors to the Total Employment at Study Airports (The Other category includes all other employment at the airports)

Major Economic Industries and Their Dependence On Air Travel

The survey asked airport management to identify the major industries in their region and to assess the importance of air service to these industries. The industries which were named the most frequently in the survey are (in alphabetical order):

- ✈ Agriculture
- ✈ Aluminum
- ✈ Automotive
- ✈ Fishing
- ✈ Forestry:
  - Pulp and Paper
  - Lumber
- ✈ Government services
- ✈ Health services/medical
- ✈ Hydro-electricity
- ✈ Military

- Mining
- Oil/gas
- Seafood
- Steel manufacturing
- Tourism.

Although airports are generally viewed as economically important, only a few of the surveyed airports have had formal economic impact studies prepared. Two of the respondents that had completed studies quantified this impact:

> **"$300-500K tourism annually. 1999 study estimated the direct economic impact of the airport to be $15.1 million and 184 person years of employment generated by airport."**
>
> **"Aviation related business at airport generated total revenues of $3 million in 2000. Non-aviation related business (paper, fishery processing) generated $10 million revenue."**

Summary of Business Planning Practices

One third of surveyed airports reported having in place an approved Master Plan. Only eight of the airports were able to provide five year traffic forecasts. Business and master planning is one area where the smaller airports need external assistance from time to time, and paying for that assistance is a challenge for many of them.

Public Interest Air Services at Smaller Airports

Exhibit II-16 clearly supports the viewpoint that the smaller airports play an essential role in the delivery of public interest air services that are essential to the well being of the communities and regions. The vast majority of the surveyed airports support medical evacuations, forest firefighting, search and rescue and policing.

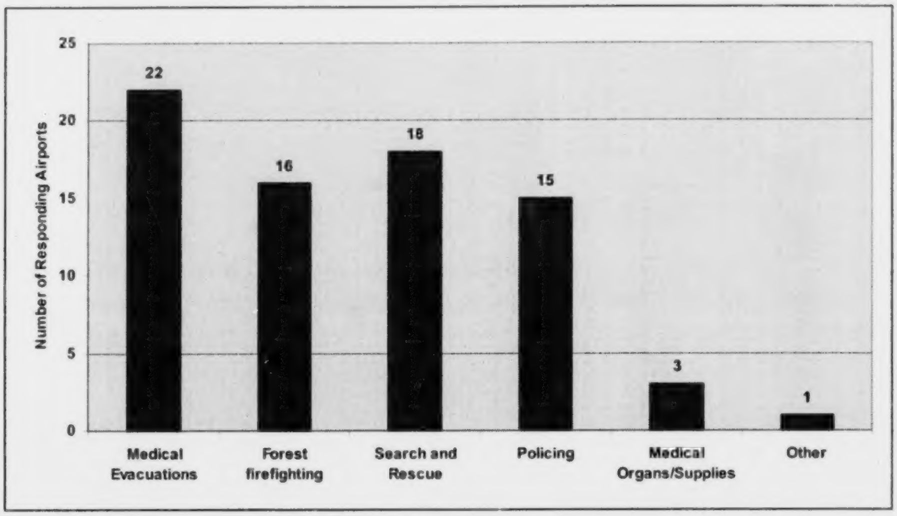


Exhibit II-16. **Number of Airports Supporting Public Interest Air Services (22 Airports Reporting)**

Exhibit II-17 illustrates the average number of public interest flights for the 22 reporting airports. Taken as whole, this group of airports supported 5,400 medevacs and 2,800 forest firefighting flights in 2000.

At the study airports, medevacs average one per workday for each of the airports

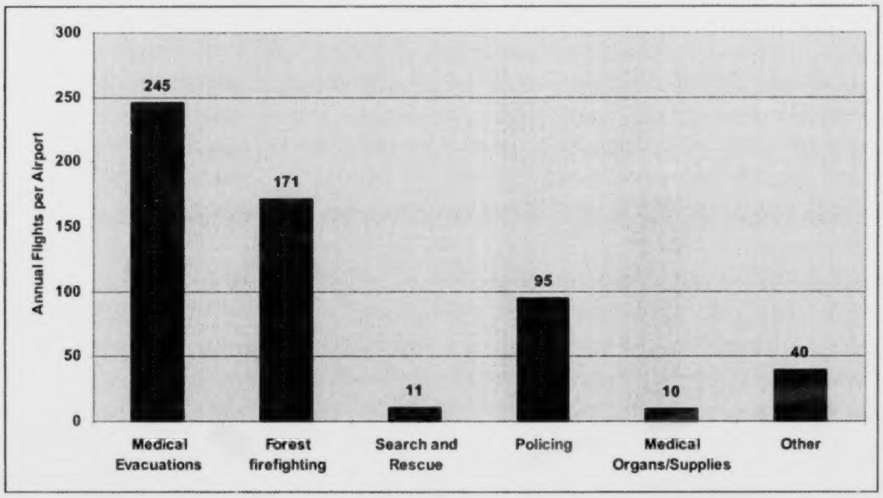


Exhibit II-17. **Average Number of Flights per Year by Category of Public Interest Air Service (22 Airports Reporting)**

An alternative perspective on economic impact is to consider the consequences of this size of airport ceasing operations. What if the airport ceased operations? Most communities need to undertake this kind of analysis:

- Where is the nearest alternative for medical evacuations and organ delivery, and what additional time would be involved? Would this potentially increase fatalities?
- What is the impact of relocating forest fire fighting flights? Is this important locally for employment? Are the fires local? What is the alternative?
- What would the impact of closure be on industries currently in the area? Would the absence of the airport reduce the ability to attract business in the future? What are the alternatives?
- Are there alternatives, including intermodal arrangements or cooperation with nearby airports that could alleviate these concerns?

Airlines and Aircraft Types

Some airports inherited oversized facilities

Exhibit II-18 summarizes the airlines and types of aircraft used at the study airports. The right hand column also shows the airports' design aircraft. It is clear from this data that the aircraft using the airports are typically smaller than the design aircraft. It seems that upon transfer, some airport administrations have inherited facilities that were oversized for their needs.

This over-development dates from pre-deregulation when jet service was provided to many communities. It has tended to leave some smaller airports with a larger operations and maintenance cost structure than would be needed to serve current traffic. For other airports, the oversized facilities provide opportunities for additional revenue sources - drag strips, go cart tracks, etc., on unused airfield areas.

Average Spend by Visitors to Regions

Exhibit II-19 provides an overview of the average amount that is spent by people visiting the different regions served by the study airports, as reported by the airports surveyed.

Exhibit II-18. Airlines, Types of Aircraft Using the Airports and Design Aircraft in 2001

Airport	Airlines	Aircraft	Scheduled Service	Design Aircraft
Alma	Air Alma	Beech 1900 , Embraer 110, Piper Navajo, Cessna 404	N	SAAB 340
Brandon	Perimeter Aviation	SW4	Y	B737
Charlottetown	Air Canada, Air Canada Regional	DC9, CL-65, A 319	Y	B767
Cranbrook	Air Canada, Central Mountain Air, North Thunderbird Air, North Vancouver Air	Dash-8, Beech 1900, King Air 100/Navajo	Y	B737-200
Dawson Creek	Central Mountain Air	Beech 1900	Y	B727
DeerLake	Air Nova, Provincial Airlines, Prince Edward Airlines, Sky Links	Dash-8, Saab 340, King Air, Beech-1900, BAE 146	Y	B737
Flin Flon	Calm Air, Bearskin Airlines	SAAB340, Hawker Siddley 748, PC 12, Metro	Y	3C
	Transwest, Keystone, Skyward, Westwind	BE20, PA31, C310, C402, JS31, BE99, BE10, C414, C500	N	
Ft St-John	Air Canada, Peace Air	F28-DH3, PC-12	Y	B747
Gaspé	Air Nova	Dash-8, Beech 1900	Y	DHC8, ATR42
Goose Bay	Air Nova, Air Labrador, Provincial (Innu Mikun)	Dash-8, Beech 1900, Twin Otter, Saab 340, Merlin	Y	B747
	Prince Edward Airlines		N	
G. Prairie	Air Canada, Westjet, Peace Air, Swan Aero 2000	Dash 8-100/300, 737-200/700, Pilatus PC12, PA31 Navajo, Jetstream J31	Y	B737
Jasper	Peace Air	PC12	Y	DHC8
Kapuskasing	Bear Skin, Air Georgian	Metro III, Caravan, Beech 1900	Y	DHC8
	Commercial Aviation, Spruce Falls, Thunder Airlines, Flight Executive	Cheyenne/Navajo, Bell Jet Ranger (heli.),2 MU	N	
Muskoka	Executive Jet Airlines	Citation III, IV, X, Gulfstream III, IV, HS 125	N	Gulfstream III
Peace River	Air Canada Regional, Peace Air Ltd.	Beech 1900, PC12	Y	
	Peace Air Ltd.(charter), Northern Air Charter, Highland Helicopters	PA34, C210, PA31, Cessnas, Beach 100s, Pipers, Aircraft HR35s and BH06s	N	
Prince Albert	Transwest Air, Norcanair, Westwind Aviation, National Aviation Centre	BE1900, Metro III, HS 748, PA 31	Y	B737
	(RCMP) Govt of Canada, Southern Aviation, Weyerhauser Pulp & Paper, Carrier Lumber	PC 12, PA 31, Merlin SW2, Falcon2000/50, C560	N	
Prince Rupert	Air Canada Regional, Hawkair	F-28, Dash 8	Y	B727
Rouyn	Air Nova, Pascan Aviation, Propair	Dash 8 100/300, Beech 1900, PC-12, Beech 10	Y	B737
	Hydro-Quebec	AB-320, CV 580	N	
Sault-St-Marie	Air Ontario, Bearskin, Westjet	Dash 8 100/300, Metroliner, Pilatus, Beech 10, B-737	Y	B737
Saint John	Air Canada Regional	F-28, Dash 8 100, Beech 1900	Y	B737
St-Léonard	Air Nova, Prince Edward Airlines	Dash 8, Navajo	Y	DHC8
Stephenville	Air Nova, Provincial Airlines, Air Labrador	Dash 8, Beech 1900, Saab 340	Y	B747
Sydney	Air Nova, Air St-Pierre, Prince Edward Air		Y	B727
Val D'or	Air Nova, Air Creebec, First Air	Dash 8, Beech 1900, Dash 9, Beech 1901, King Air 100, B-727	Y	B727
	Aviation Boréal	Navajo, DC-3	N	
Yarmouth	Air Nova	Beech 1900	Y	B727
Yorkton	No passenger services		N	

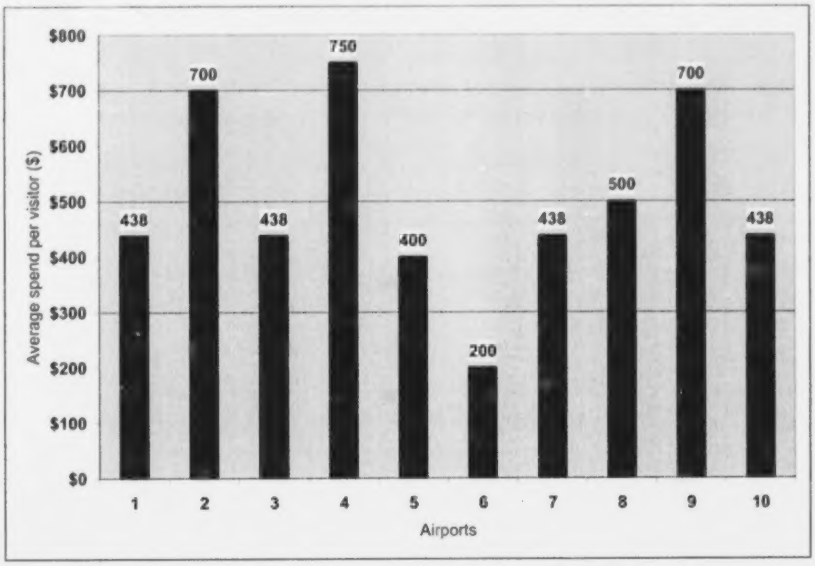


Exhibit II-19. Average Spend per Visit by Visitors (Inbound Business or Leisure Travellers) to Communities and Regions Served by Study Airports (10 Airports Reporting)

D. Facilities and Development at the Smaller Airports

Exhibit II-20 itemizes the key facilities for each airport surveyed. Exhibit II-21 summarizes the facility condition ratings as provided by the airports themselves in response to the survey. Facilities were rated by the airport management of each site on a scale of 1 to 10 where 1 is very poor and 10 is excellent. In general terms:

Facilities are mostly in good condition

- Airfields are in very good condition;
- Perimeter fencing is in acceptable condition;
- Terminals, other buildings, vehicles and equipment are in good condition; and
- Roads and vehicle parking facilities are in fair to poor condition.

The mostly good condition of the airports is due in part to the fact that most airports have benefited from grants and subsidies from the Federal Government that were part of their transfer agreement. These funds were intended to be used in many cases to revamp facilities that had already passed their life expectancy at the time of transfer. In many instances, the money was allocated over a number of years.

Exhibit II-20. Facilities at the Study Airports

	Alma	Brandon	Charlottetown	Cranbrook	DawsonCrk	DeerLake	FlinFlon	Ft.St.John	Gaspé
Airside facilities									
Primary runway									
Length of runway (ft)	4 310	6 500	7 000	6 000	5 000	6 000	5 000	6 900	4 500
Width of runway (ft)	328	150	150	150	150	150	150	200	150
Size of apron(sq. ft.)	141 939	96 000		400 000	90 000	16 850	120 000		9 290
Taxiways (number or size)	4 202				800x150	2	350 x 75		3 978
Design aircraft	SAAB 340	B737	B737	B737	B727	B737	3C	B747	ATR42
Secondary runway									
Length of runway (ft)		3 000	5 000					6 700	
Width of runway (ft)		60	200					200	
Size of apron(sq. ft.)									
Taxiways (number or size)									
Design aircraft			A319					B747	
# of gates, parking slots for pax a	1 gate / 12 ac			3 parkings	2	2 gates / 6 ac		3	
Terminal (size of public area sq. ft	3 446	5 510	3 004	10 118	5 635	2 352	1 184	1 748	5 371
# of jet bridges	0	0	0	0		0	0	0	0

	GooseBay	G.Prairie	Jasper	Kapuskasing	Muskoka	PeaceRiver	PrinceAlbert	PrinceRupert	Rouyn
Airside facilities									
Primary runway									
Length of runway (ft)	11 046	6 500	4 500	5 500	6 000	5 000	5 000	6 000	7 485
Width of runway (ft)	209	200	100	100	150	150	150	200	150
Size of apron(sq. ft.)		86 400	47 724	100 000	91 450		3 aprons	40 500	22 313
Taxiways (number or size)		A-153	49 x 656	400' x45'	100' wide		3	30	2
Design aircraft	B747	B737	Dash 8	Dash 8-100	Gulfstream III		B737	B737	B737
Secondary runway						Grass	Grass		
Length of runway (ft)	9 580	6 200		3590 ft	2 780	1 900	2 500		
Width of runway (ft)	200	200		75 ft	100	150	100		
Size of apron(sq. ft.)		86 400							
Taxiways (number or size)		A-153							
Design aircraft		B737		N/A	Cessna 310				
# of gates, parking slots for pax a	2 gates, 6 park.	2	1	3 parkings	10 tie-down			2	5
Terminal (size of public area sq. ft	10 742	8 073	2 800	3 600	1 500	18 500	4 144	2 896	10 441
# of jet bridges	0	0	0	0	0	0	0	0	0

	SaultSte.Marie	Saint John	St.Leonard	Stephenville	Sydney	Val dOr	Yarmouth	Yorkton
Airside facilities								
Primary runway								
Length of runway (ft)	6 000	7 000	4 000	10 000	7 200	3 048	6 000	4 800
Width of runway (ft)	200	200	100	200	200	45	150	150
Size of apron(sq. ft.)	257 808		15 525	231 168		56 601		
Taxiways (number or size)	3	1647'	2 623	2		26 001		
Design aircraft	B737	B737	Dash-8	B747	B727	B727	B727	
Secondary runway								
Length of runway (ft)	6 000	5 100		3 900	6 100		5 000	3 000
Width of runway (ft)	200	200		150	157		150	100
Size of apron(sq. ft.)		262 400		231 168				
Taxiways (number or size)	3	3 500		2				
Design aircraft	B737	B737		Dash 8	B727			
# of gates, parking slots for pax a	3 gates, 15 park.	4		2 g / 36 ps	4	1 gate / 4 ac		
Terminal (size of public area sq. ft	7 000	22 000	4 844	19 590	6 000	15 802	17 000	1 220
# of jet bridges	0	0	0	0	0	0	0	0

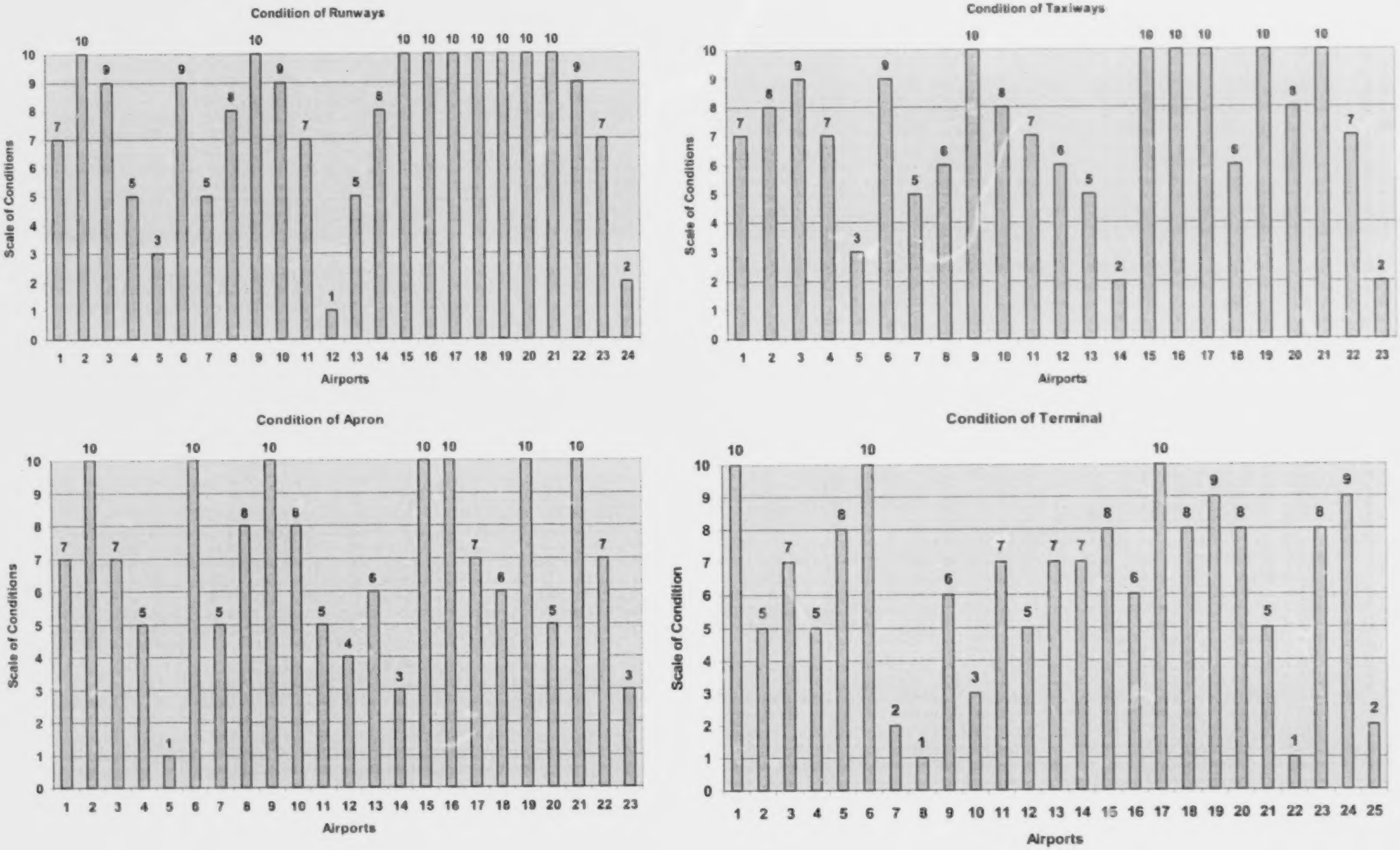
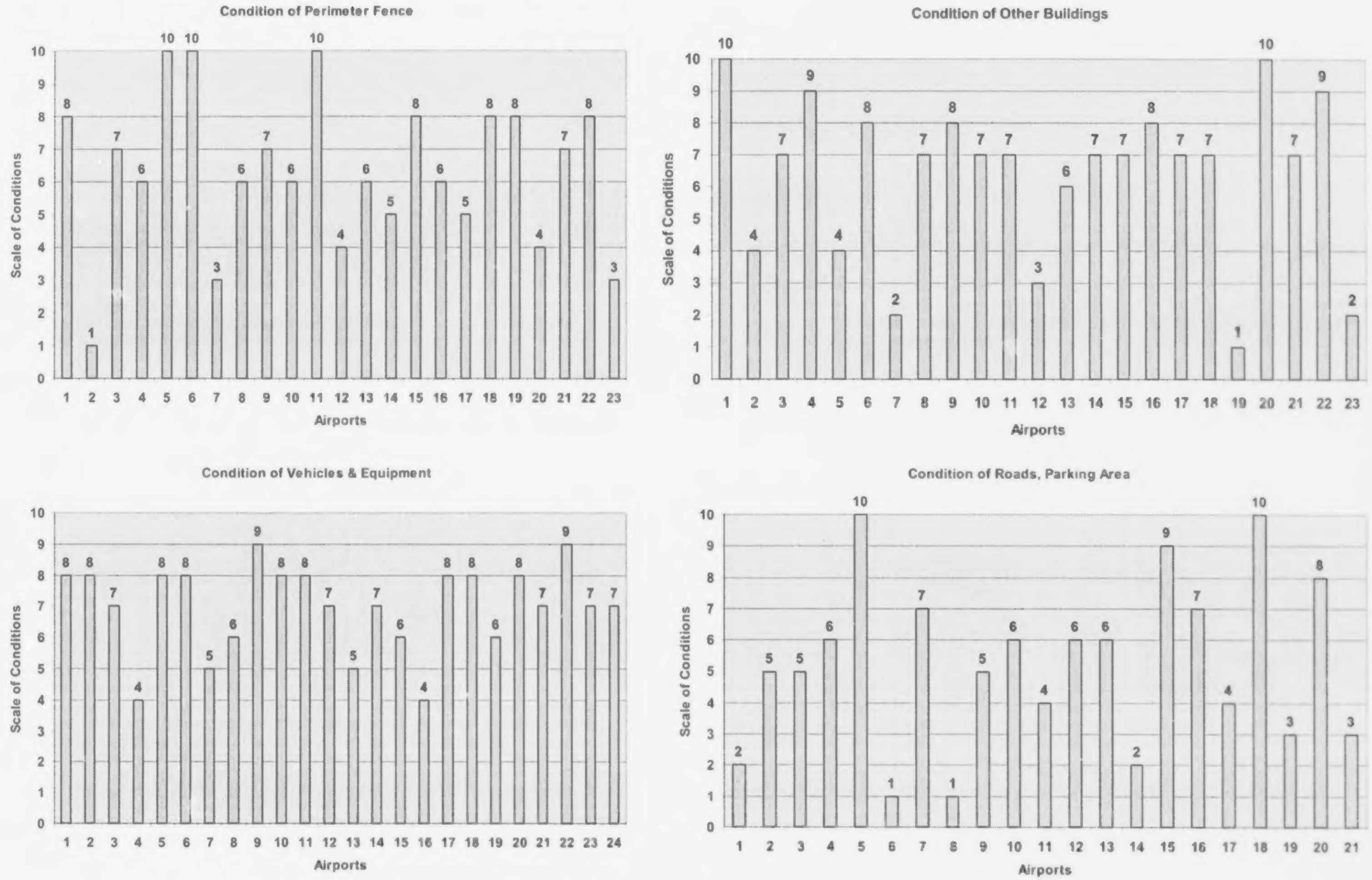


Exhibit II-21. Facility Condition Rating for the Study Airports as Reported by Airports


Condition of Perimeter Fence

Condition of Other Buildings

Condition of Vehicles & Equipment

Condition of Roads, Parking Area

Exhibit II-21. Facility Condition Rating for the Study Airports as Reported by Airports (Cont'd.)

Applications for ACAP Funding Since 1996

Exhibit II-22 charts the average percentage of success of applications for ACAP. Twenty airports reported having filed applications for ACAP funding. The vast majority of applications have been approved, and about 20% are pending. This high percentage of success is no surprise considering that eligible airports submit projects that meet the program's criteria and that, so far, there have been sufficient funds in the program to satisfy all qualified applications. Airports that are not eligible are aware of their status with respect to this program and do not file applications. Appendix D provides the criteria for ACAP.

The most commonly submitted and approved projects fit within the following categories:

- ✈ Airside facilities: runway, taxiway, apron extensions and revamping, lighting systems, runway approach systems;
- ✈ Wildlife control fences, bird control systems;
- ✈ Air terminal roofs; and
- ✈ Heavy equipment: blowers, graders, snow plows, sweepers, etc.

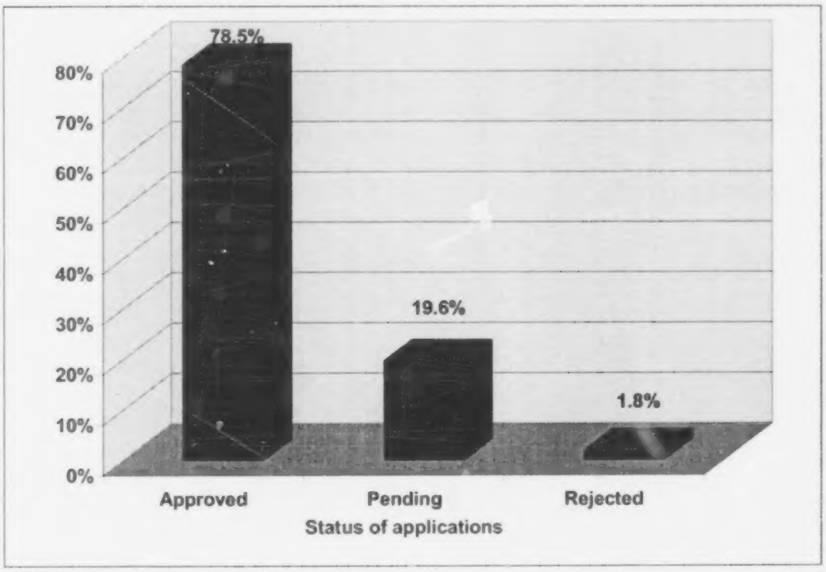


Exhibit II-22. Proportion of Success of ACAP Applications

To date, airports are generally satisfied with the program and the support they are getting from Transport Canada's regional offices, but have the following concerns:

ACAP has been working well, but there are concerns for the future

- Airports believe that the program will soon be underfunded. They are concerned that this situation will eventually lead to a national priority setting exercise, with some eligible projects not being funded;
- Airports feel that the program should be expanded to include non-airside projects;
- From the airports' perspective, the approval process is too long and too expensive. A consultant is often required to file the applications;
- Funds are allocated based on aircraft using the airport, but the airports prepare their requests for funding based on facilities that were developed for larger design aircraft; and
- Some airports feel that there is a lack of consistency between the regions regarding project approvals (i.e., that the ease of obtaining approvals for some types of projects may vary from region to region).

E. Summary

A review of the traffic, management, economic impact and facilities at the study airports indicates that:

- The study airports have fewer than 200,000 enplaned/deplaned passengers in 2000;
- Passenger traffic at the study airports typically:
  - Is flat or declining;
  - Is responsible for more than ½ of the movements;
  - Is 55% business travel;
  - Includes an average of 32% of inbound visitors;
- Cargo traffic is important at the study airports, with seafood, medical supplies, courier packages and equipment parts being moved to serve local and national needs;
- The airports serve a broad public interest:
  - Medevacs average one per workday at each of the study airports;
  - Forest firefighting activity at this size of airport is a significant activity – an average of 171 movements per year;
- The airports have a substantial local economic impact - there are more than 1,400 direct jobs in total at the 23 airports that reported

employment, with airline employees making up the largest single element;

- The airports have made significant efficiency gains since the transition from federal operation. Airport staffs have been reduced by an average of 31%;
- The facilities at the airports are generally in good condition, with the exception of roads and vehicle parking areas;
- The facilities were mostly built during a period of airline regulation and are typically oversized for the aircraft using the airports today; and
- ACAP has been helping meet the needs of these airports for rehabilitation capital, but the airports have concerns about future funding and viability.

III. THE FINANCES OF SMALLER AIRPORTS

A. Revenues and Expenses

Analysis of the profit and loss statements supplied by the surveyed airports indicates that:

- Only one airport had the financial data for the three years preceding transfer from Transport Canada.
- A significant number of airports benefited or are still benefiting from Transport Canada grants and subsidies that were part of the airport specific transfer agreements. Some of these grants and subsidies were spread over a number of years, and are still reflected in the 2000 and 2001 income statements.
- A few airports show neither surpluses nor losses in their statements. In these cases, the grants and subsidies from municipalities are set equal to the deficit and used to balance the accounts.
- Many airports do not account for any amortization or depreciation in their statements.
- Since their transfer from the Federal Government, several airports have revised their revenue structure by:
  - Implementing an Airport Improvement Fee (AIF) for capital programs;
  - Implementing a Passenger Facility Charge (PFC) to finance their operating expenses and possibly capital development;
  - Increasing their landing fees significantly; and/or
  - Significantly increasing their fuel fee or implementing a fuel fee to augment or replace landing fees.
- At eight authority operated airports, local property taxes are a significant expenditure.

The airports' revenues can be divided in three broad categories. Exhibit III-1 illustrates the average distribution of revenue between these categories for airports of more and of less than 50,000 e/d passengers per year. The larger airports rely proportionally slightly more on commercial/retail revenue than other revenue (grants, etc), when compared to smaller airports. The specific composition of these categories of revenues is analyzed in more detail below.

Aviation user fees make up ½ of smaller airport revenues

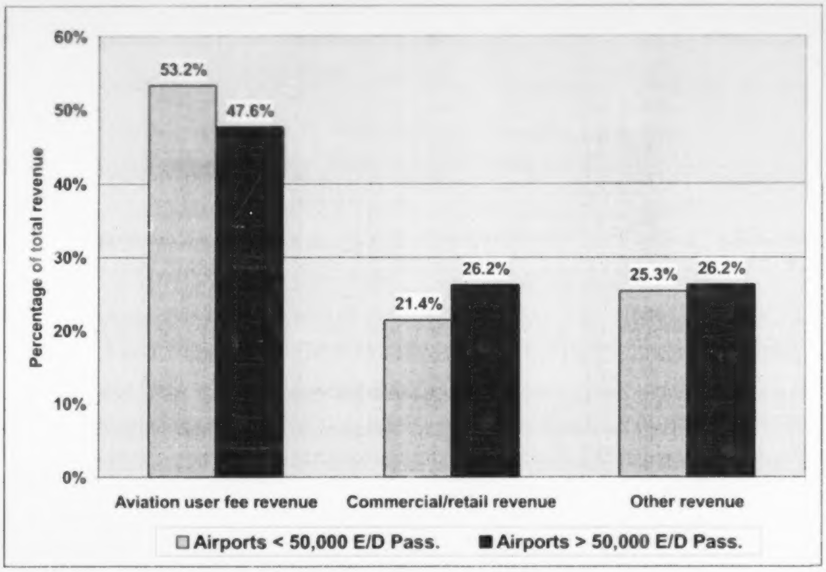


Exhibit III-1. Composition of Airport Revenues for Airports with Less Than 50,000 E/D Passengers per Year and Airports with More Than 50,000 E/D Passengers per Year

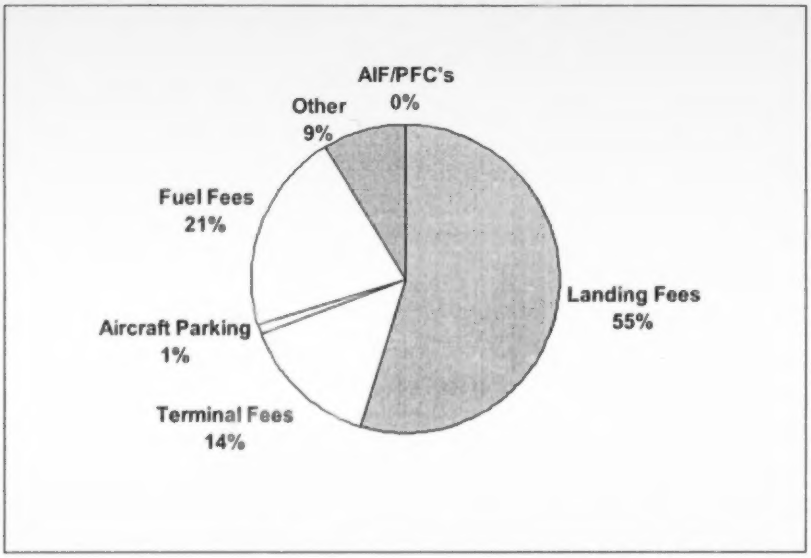
Aeronautical Revenues

Exhibits III-2 and III-3 identify the major contributors to the aviation revenue category (aeronautical revenues) for airports with and without Airport Improvement Fee (AIF)/Passenger Facility Charge (PFC) revenue. For airports with AIFs/PFCs, these revenues make up 40% of their total revenues. For airports without AIF/PFC revenue, landing fees are the largest single revenue.

Airport Improvement Fees (AIF) & Passenger Facility Charges (PFC)

Half of the airports have implemented passenger based fees

Eleven airports reported collecting an airport improvement fee of some kind in 2001 (seven in 2000), and one has a fee approved but not yet implemented. At least two other airports have not approved a passenger fee yet but intend to implement one in the near future. The passenger fees range from $5.00 to $24.00 per enplanement (some airports calculate the fee on enplaned and deplaned passengers) with an average of $11.55 per enplanement. Very few types of passengers are



For airports without AIFs/PFC's Landing fees typically make up more than ½ of aviation user revenues

Exhibit III-2. Average Contribution of Various Aeronautical Revenue Sources for Airports without AIF's/PFC's (2000 Data, 15 Airports Reporting)

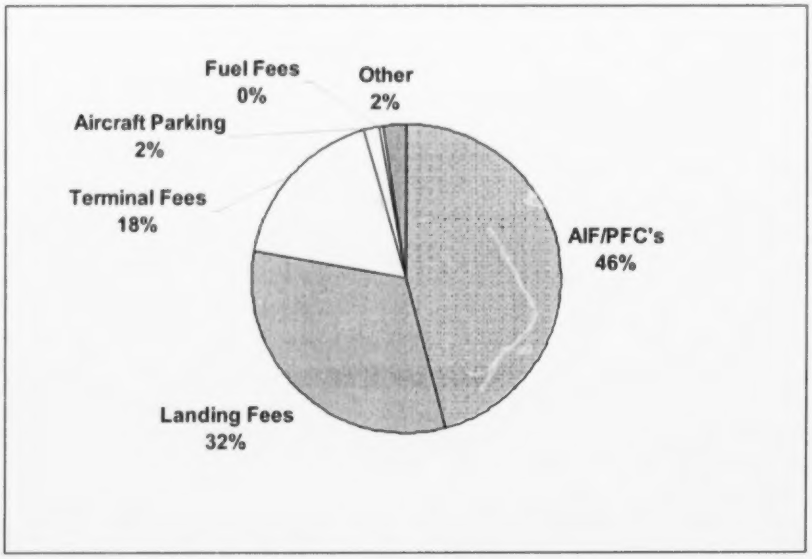


Exhibit III-3. Average Contribution of Various Aeronautical Revenue Sources for Airports with AIFs/PFCs (2000 Data, 7 Airports Reporting)

exempted from this fee. In some cases, although referred to as an Airport Improvement Fee (AIF), the fee covers operating deficits and should be considered a passenger facility charge (PFC) or passenger utilization fee rather than an AIF. One of the airports reported collecting an "Airport Operating fee based on e/d passengers", which exclusively serves as a means of financing its operating expenses. In one other case, the airlines collect an "Airport surcharge" of $28, of which $24 per enplanement is remitted to the airport.

Exhibit III-4 shows the amounts of AIF or similar fees reported being charged to passengers by the surveyed airports.

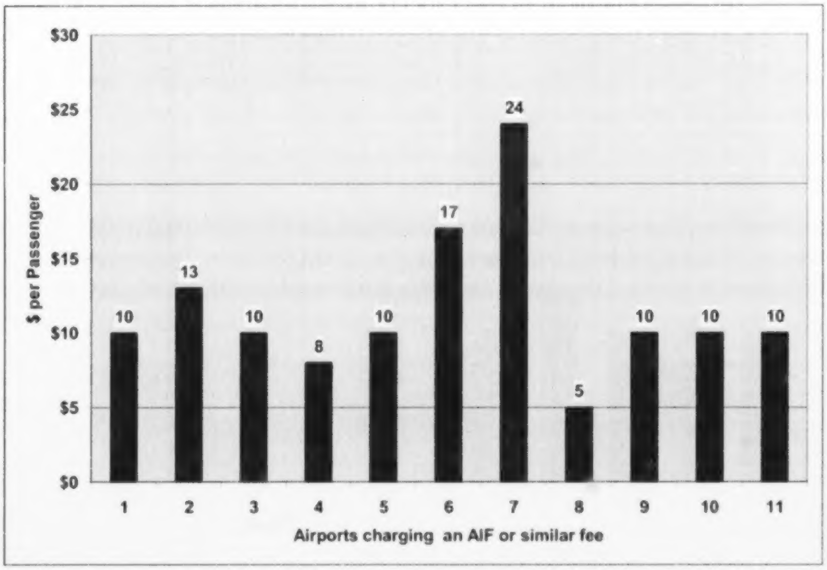


Exhibit III-4. Airport Improvement Fees/Passenger Facility Fees Charged By Smaller Airports (11 of 26 Airports had Passenger Fees in Place in 2001)

All airports collecting an AIF/PFC reported implementing such a fee within four years after devolution of the facilities by Transport Canada, with the greater number being implemented within two years after devolution.

Nine airports reported on their main reasons for implementing an AIF/PFC:

- The reduction or elimination of their operating deficit;
- The necessity of such a fee to assure viability; and

- The financing of improvements and enhanced services.

Passenger based fees are being used as much for financing airport operations as for capital projects.

One airport's statement clearly summarizes the financial dilemma the airports will be confronting more and more in the future: this airport states that the implementation of an AIF/PFC was necessary to "Offset capital expenses (raise capital) and offset some operating expenses once subsidies expire in 2003". Most of the airports that have been recently devolved from the Federal Government have been surviving on federal grants or subsidies that were, in some cases, phased over a number of years. Some have already started changing their revenue structure and are implementing an AIF/PFC to increase their revenues after the subsidies expire.

There are many possible reasons why some airports have not implemented a passenger fee (the question "why not" was not included in the survey), including:

- Fear of loss or reduction in air service;
- Competition from other modes;
- Transitional funding has meant that the fee was not yet required; and
- At very small airports, insufficient potential revenue from an AIF/PFC to overcome deficit issues.

Commercial/Retail Revenues

As shown in Exhibit III-5, there is considerable variation from airport to airport in commercial revenues:

- Land leasing revenues represent the largest commercial/retail revenue source for most of the smaller airports, closely followed by terminal concession leases, vehicle parking and office rent;
- Some airports include fuel concession revenues as commercial revenues, rather than aeronautical revenues, and for these airports, it is the largest single commercial revenue; and
- A small number of airports reported generating a significant proportion of commercial revenue through car rentals.

Other Revenues

The Other Revenue category includes grants and subsidies, revenues from asset sales, interest, revenues from contract services, etc. Of 22 reporting airports, 17 rely on other revenues to break even or reduce their operating losses. In the past years, grants and subsidies constituted the bulk of this revenue category. As the Transport Canada transitional grants end, this category will become much smaller.

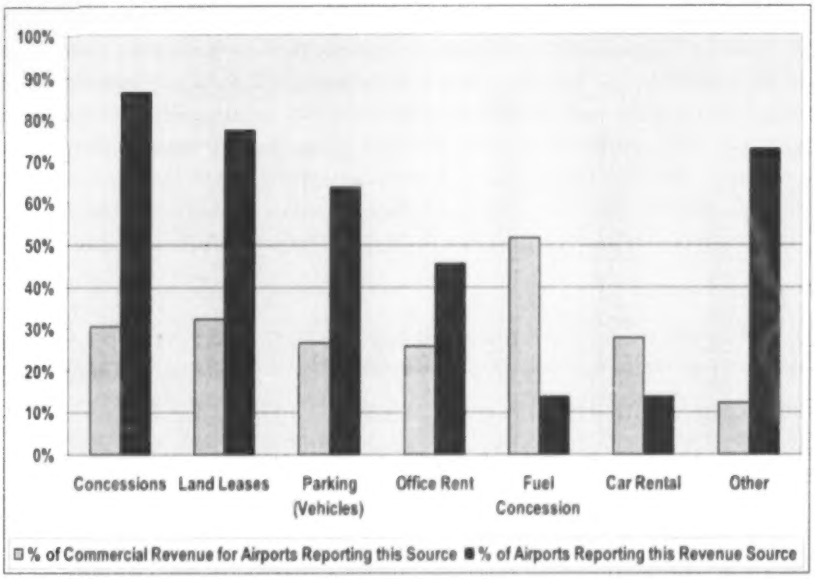


Exhibit III-5. **Average Contribution to Commercial Revenue by Source for Airports Reporting that Revenue Source**

Sources of External Funding

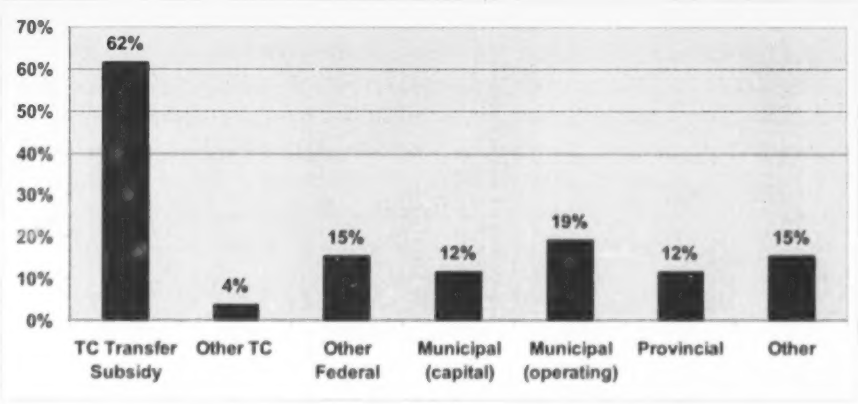
Seventeen of the surveyed airports rely on some kind of external funding to finance their capital investments and/or their operating expenses (in addition to the federal Airports Capital Assistance Program – ACAP).

Exhibit III-6 illustrates the percentage of smaller airports that benefit or have benefited from external sources of funding for capital or operating expenses.

Sixteen of the study airports received a subsidy from Transport Canada as part of their transfer agreement. These subsidies have been used to revamp facilities that were obsolete at the time of transfer, and to finance operating deficits. In some cases, the subsidies were allocated over a number of years, and some of these airports have not yet operated a single year without Federal financial support.

Some of the airports have not yet operated without Federal subsidy

Municipal support is the next largest source of external funding. One Western small airport also depends exclusively for its operating expenses on the support of local stakeholders involved in the tourism industry.



External funding is required for most of the smaller airports

Exhibit III-6. Percent of Airports Benefiting From External Funding Other than ACAP by Type of Funding (2001)

Expenses By Type

Labour costs remain the largest single cost item

An examination of operating expense items indicates that even though most of the smaller airports have rationalized their human resource expenses in the years following transfer, salary and benefit expenses still constitute the most important operating cost, representing an average of 40% of the operating costs of the reporting airports (Exhibit III-7). The other most important types of expenses are materials and repairs, and utilities and fuel. The category Other Expenses in the exhibit includes management contracts, insurance, interest, telecommunications and miscellaneous. The accounts reported are for 2000 and 2001 and do not reflect the insurance increases that airports are experiencing following 11 Sept 2001. Many of the smaller airports are effectively reporting on a cash basis and do not include depreciation/amortization in their profit and loss statement. This expense represents over 12% of the expenses of the airports that did report it.

Many smaller airports are operating on a cash basis

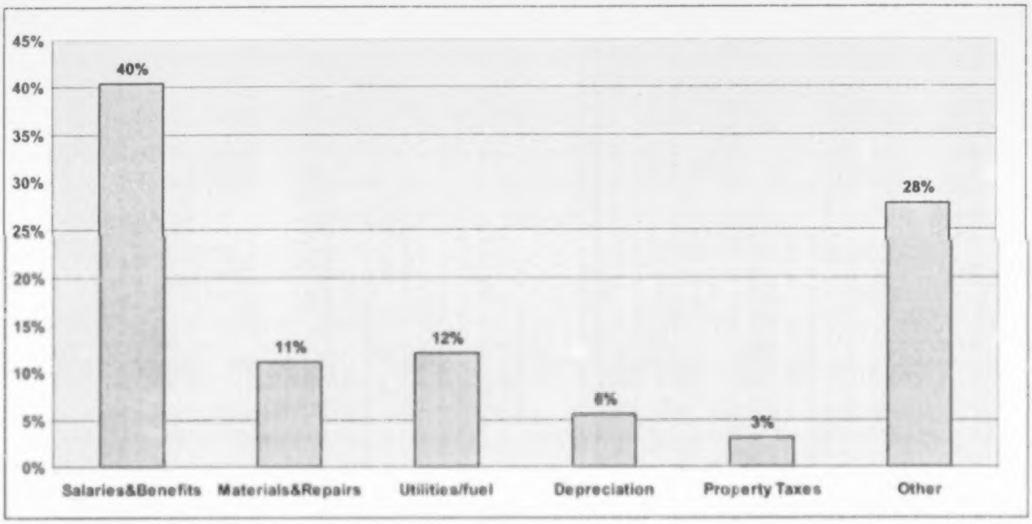


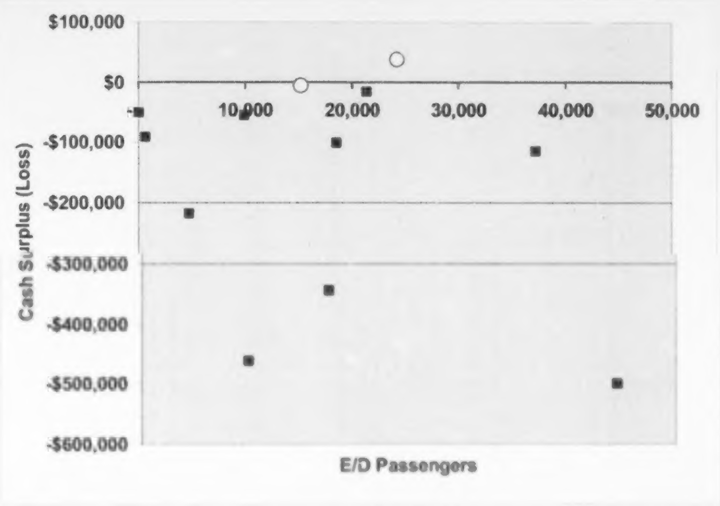
Exhibit III-7. **Average Composition of Operating Expenses of the Reporting Airports (22 Airports)**

B. Cash Flow

The cash flow is the net cash flow from operations. It is calculated from the income statement by adding back non-cash items (depreciation, amortization, etc.). The cash flow is an important measure of short term viability, and also of the ability to service debt. Exhibit III-8 illustrates the cash flow in 2000 without grants and subsidies for airports with less than 50,000 e/d passengers respectively.

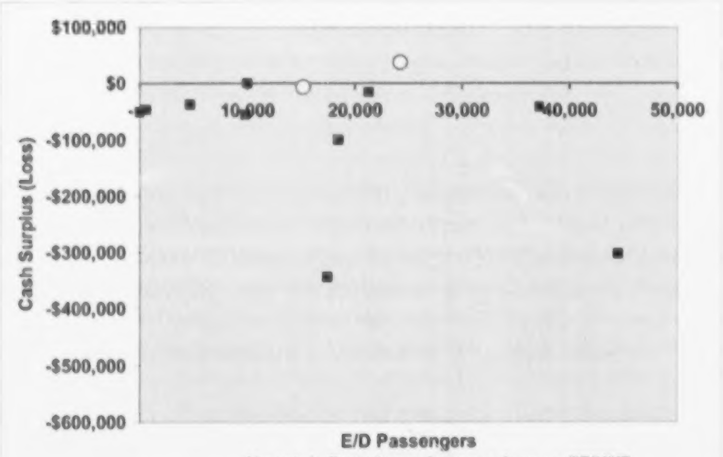
For these airports it is effectively EBITDA (earnings before interest, taxes, depreciation and amortization) because interest expenses only exist at a few airports and tend to be very small. Of this group of airports, only one shows a cash surplus on operations, and this is one of the two airports in this size range with a passenger facility charge (a third airport in this range implemented a PFC/AIF in 2001).

Exhibit III-9 shows the impact of the inclusion of grants and subsidies on the operating bottom line of the same airports. In this case, many of the less than 50,000 e/d passenger airports see their cash flow at, or near, breakeven. However, the subsidies for many of the airports are comprised mainly of the TC transfer subsidies and these have expired, or will expire in the next couple of years.



Only one of the airports with less than 50,000 passengers shows an operating surplus

Exhibit III-8. Cash Flow in 2000 for Airports Under 50,000 E/D Passengers before Grants and Subsidies (12 Airports Reporting). Airports indicated with a red square have no AIF/PFC, airports with AIF/PFC's are shown as yellow circles. (The airport in surplus is 2001 data because 2000 data not available)



Airports indicated as red squares have no PFC/AIF

Exhibit III-9. Cash Flow in 2000 for Airports Under 50,000 E/D Passengers after Grants and Subsidies (12 Airports Reporting). Airports shown as red squares have no AIF/PFC. (The airport in surplus is 2001, because 2000 data not available)

Exhibit III-10 illustrates the cash flow for the study airports over 50,000 e/d passengers per year, excluding grants and subsidies. This group is somewhat healthier, with 5 of 12 showing surpluses.

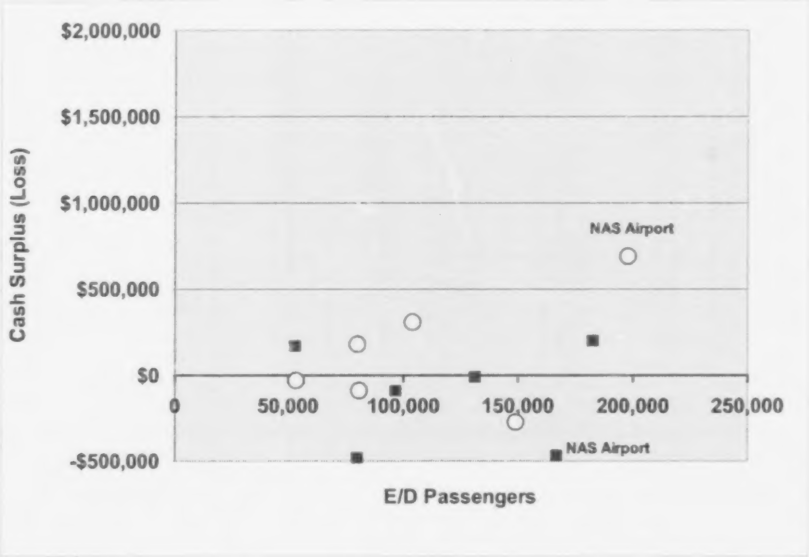


Exhibit III-10. Cash Flow in 2000 for Airports Over 50,000 E/D Passengers before Grants and Subsidies (12 Airports Reporting). Airports shown as red squares have no AIF/PFC. Airports with AIF/PFC's are shown as yellow circles

Exhibit III-11 shows the operating positions of this group of airports with grants and subsidies. With the inclusion of these external funds, 8 of the 12 airports are in a cash operating surplus.

For the study airports as a group, 18 of the 24 reporting detailed financial data have cash deficits before grants or subsidies. One of the six airports in an operating cash surplus position is a NAS Airport.

Without external financing, only six airports had an operating surplus in 2000

Transport Canada's 1994 National Airports Policy[1] contains 1992 deficit numbers for the study airports (they were all in operating deficit). For 25 of the airports that reported, the 1992 deficit was $18.4 million. Under local operation in 2000, the combined deficit was $6.2 million. Traffic at these study airports has actually declined by 16% over the past 10 years, so the change in operating position is a result of:

- Efficiency gains through local operation; and

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[1] TP12163E "National Airport Policy" Transport Canada, 1994.

- A reduction in emergency and crash fire rescue service levels in the last few years of Transport Canada operation.

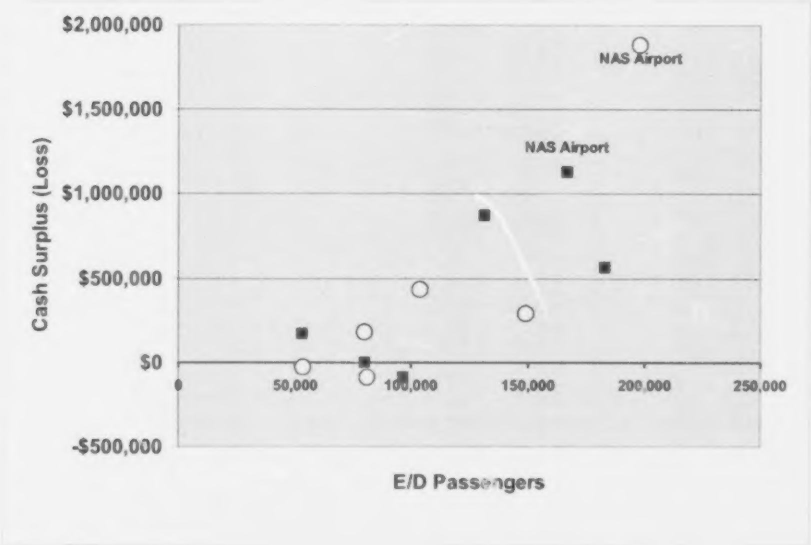

Exhibit III-11. **Cash Flow in 2000 for Airports Over 50,000 E/D Passengers after Grants and Subsidies (12 Airports Reporting). Airports shown as red squares have no AIF/PFC. Airports with AIF/PFC's are shown as yellow circles**

C. Assets and Liabilities by Type

At many of the smaller airports, accounting for capital assets is limited. The majority of the smaller airports do not assess the value of their assets on a regular basis. For many airports these assets are accounted for within the assets of the municipality served by each airport.

A total of 10 airports supplied balance sheet statements that were detailed enough to allow analysis. The main elements evident from this analysis are:

- The most valuable assets of the airports, the land and airside facilities, are often not accounted for in these statements;
- Most airports do not have any long term debt (see next section). For this reason, the equity often results from the difference between total assets and current liabilities. In some cases, long term assets do not figure in the statements;

- Many of the airports show equity increasing over the past four years. Some airports are including grant funded infrastructure in their asset base but are not including depreciation on any assets; and
- Some airports use grants and subsidies to balance their financial statements (income and balance sheet statements). In these cases, the balance sheets show no equity.

Long Term Debt

Only three of the 26 surveyed airports reported having long term debt. All of these airports are authority operated. This may be due to provincial laws and regulations that constrain municipalities from contracting and accumulating debt.

Some of the explanations given by airports for their long term debt are:

- "The long term debt represents the purchase price of items as outlined in the bill of sale agreement dated March 1, 1999 and is payable in 7 equal installments."
- "Non interest bearing note for $1,591,639 for purchase of assets and consumables. Repayable over seven years."

Considering the cost of airport infrastructure, the capacity to contract long term liabilities represents a major issue with respect to the long term financial viability of the smaller airports. In the past, federal grants and subsidies were paid in one lump sum or over the realization period of the projects. It is not normally expected of a viable business entity that it finance its capital investments directly from operations (without borrowing), and it will be difficult for airports to do so.

The ability of municipally operated airports to finance future, non-ACAP eligible capital investments will be a key issue in their viability. Since these airports cannot borrow in their own right, the options open to their municipal owners are:

- To finance capital investment from cash flow and reserves. This is typically very difficult to do for any business;
- To seek municipal financing for airport development; or
- To evolve to authority operation, so that the airport is capable of borrowing, although this will increase operating costs as a result of municipal property taxes.

An Interesting Example
To assess the impact of airport operating losses and non-ACAP capital investments on municipal taxes, an airport of 18,000 e/d passengers was examined. With a population of 12,000, the total municipal tax revenue is approximately $6 million/year. The airport's operating deficit accounts for 6% ($360,000) of the municipal tax bill. If a replacement passenger terminal was required, it would cost in the range of $4 million (for a modest terminal), and the combined debt service and operating deficit would make up approximately 14% of the municipal budget. Clearly, the airport is a major factor in local taxation.

D. Summary

A review of the finances of the study airports shows that:

- Despite flat or declining traffic at many of the smaller airports, revenues are up significantly over the past few years, with half of the airports having introduced, or about to introduce passenger based fees;
- Although operating costs have been reduced, primarily through staff reductions, labour costs are still the largest single component of the operating cost base;
- Without grants and subsidies, 18 of 24 airports providing detailed financial information were in operating deficit in 2000;
- With grants and subsidies included, 15 of the 24 showed a cash operating loss in 2000;
- Transitional funding from Transport Canada has been keeping this group of airports from financial failure, but this funding is running out; and
- The inability of smaller municipally operated airports to borrow to finance capital investment will constrain their ability to operate and develop without external support.

IV. THE FUTURE FOR THE AIRPORTS

A. Changing Regulatory Environment

CAR 308

For the past three years the proposed increases in airport emergency services (CAR 308) have been a concern to smaller airports. Transport Canada in 1999 proposed introducing changes that would significantly increase the equipment, personnel and training costs for emergency response at smaller airports. No risk assessment was undertaken to support the proposed changes.

If implemented, CAR 308 will reduce airport viability

The Canadian Airports Council and the Air Transport Association of Canada jointly commissioned a study of the potential impact of the draft regulations[2]. At that time, the study concluded that the impact, which falls on the smaller airports, would be as high as $33 million/year, increasing airport operating costs by 35%-43%.

Subsequent to the industry input, the draft CAR 308 regulations have been amended and the impact on the industry will be reduced. In June 2002, CAR 308 was gazetted and although the final regulation has reduced the potential financial burden on the smallest of airports, it will impose significant new costs on some small airports. For ten of the study airports that will still be required to make changes to their emergency services under CAR 308, the average new costs estimated by the airports are $225,000 initially and $142,000 annually.

New Security Regulations

Since September 2001, Canada has moved to increase airport security. Eighty-nine airports will be directly affected through increased requirements, but more significantly for many of the smaller airports, the Federal Government is using a charge on air travel to pay for the full amount of the costs of additional security. A $24 fee on a round trip ticket came into effect 1 April 2002.

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[2] Sypher:Mueller International Inc., "The Impact of Increased Emergency Services Requirements on Smaller Airports" August 1999 for CAC/ATAC.

Smaller airports will feel several impacts from the changes to security and the related charge:

The new security charge will reduce demand at the smaller airports and impact viability

- A reduction in demand as a result of increased travel costs (see Subsection B Elasticity of Demand below). The amount of reduction will vary from site to site depending on the proximity to major O-D markets, the proximity to alternative US airports, and alternative modes of transportation available;
- The potential need for passengers from small airports connecting through larger airports to pick-up and re-check their baggage, because this baggage will not have been through the explosive detection process at many of the smaller airports.

Other Regulatory Changes

Other new regulations may drive up costs and reduce viability

CAR 308 and the changes to security are only two of many regulatory changes that may increase airport costs. Transport Canada is progressively reviewing other airport regulations contained in TP312[3] and is proposing changes in several areas including wildlife control and winter maintenance. Other changes can be expected as this work continues.

Airports are concerned that these regulatory changes will increase costs. As was seen in Chapter III, most of the smaller airports are already operating at a loss, so cost increases must be passed on to users in increased charges or to others in the form of increased subsidies. The ability to pass charges on to users is governed by the market – as the costs of travel increase, demand falls.

B. Elasticity of Demand

One fundamental economic principle is the law of demand: price and quantity demanded are inversely related. As the price of air travel increases, demand will decrease and vice-versa. The price sensitivity of a consumer with respect to air travel is measured as the percentage change in consumption of air transport services (demand) caused by a one-percent change in its monetary price or other characteristic such as service quality or capacity.[4] "Price" is defined as *perceived user costs*, which is usually limited to monetary costs (fares, taxes, fees), but can also include non-monetary costs such as travel time.

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[3] TP312 Airport Standards and Recommended Practices, 4th Edition, Transport Canada, 1993

[4] "Transportation Elasticities - How Prices and Other Factors Affect Travel Behaviour", online TDM Encyclopedia, Victoria Transport Policy Institute.

The following data support the conclusion that Canadians are sensitive to changes in ticket price:

- A 1994 study[5] found that using constant dollar data from 1962-92, the GDP elasticity for Canadian carriers is calculated to be 1.224, and price elasticity to be -1.028. This means that for every 1% growth in GDP, air travel with Canadian carriers increased by 1.22%. However, for every 1% increase in ticket price, demand decreased by 1.03%.
- More recently, a January US Federal Reserve Board Economic Letter on Competition and Regulation in the Airline industry[6] using 1999 data shows that on a per capita basis, Canadians take half as many flights as Americans. The economist who authored the report cited that airfares in Canada have remained at historic levels, while U.S. fares have fallen more than 40 percent since 1983. This finding is supported by the earlier work by Professor William Jordan.

Per capita travel demand in Canada is ½ that in the US - high costs are a contributing factor

- Using Canadian Aviation Statistics data[7], we see that the average ticket price for scheduled service increased 8.6% from 1998 to 1999, while the average revenue passenger miles increased only 0.5%.

There are many other factors that can affect consumer price sensitivity:

- **Quality, Price, and Availability of Alternative Routes, Modes and Destinations (Substitutes).** Sensitivity tends to increase if alternative routes, modes and destinations are of good quality and are affordable. In Canada, passengers using regional and local airports are often faced with choices. They can choose to not travel, or to travel by another mode (rail or road). In some provinces, there are several local/regional airports within a small geographical area, thereby increasing the possibility that the air traveller can travel to and from other airports.

  Australian data shows that on short-haul routes of less than 200 km, a fare increase of 10% will result in a 25% decrease in demand, while the same fare increase on routes greater than 200 km will lead to a 6% decrease in demand.[8] This can be expected given the assumed availability of substitutes for shorter routes.

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[5] "Relative Impact of Income and Price on Scheduled Passenger Traffic in the U.S. and Canada" by William A. Jordan, York University, 1994.

[6] Federal Reserve Bank of San Francisco (FRBSF) Economic Letter Number 2002-01, January 19, 2002, "Competition and Regulation in the Airline Industry" by Gautam Gowrisankaran, Economist.

[7] "Canadian Civil Aviation 1999", Catalogue no. 51-206-XIB, Aviation Statistics Centre, Statistics Canada.

[8] Table 1A03 - BTE Transport Elasticities Database; Source BTE (1986b, tables 4.3 and 4.4 p. 37 and 40).

Security charges will reduce demand at smaller airports

The impact of increased real costs of air travel will vary significantly from airport to airport. The security fee alone is equal to roughly 5% of the average fare in Canada. For trips from smaller airports, it will likely be a higher percentage, so a significant traffic impact can be anticipated. At some of the smaller airports, the elasticity may be as high as the Australian data. At remote airports the impact will be less.

- **Type of Price Change.** Different types of charges can have different impacts on travel behaviour. Passenger user fees or taxes may affect a traveler's route choice. For example, when the GST was imposed on travel to the US from the Vancouver area, there was a 36% increase in Vancouver originating passengers driving to the US to start their air travel to US destinations.[9]

- **Type of Trip and Traveller.** Business and commuting trips tend to be less elastic than recreational or leisure trips, while weekday trips may have very different elasticities than weekend trips. Travellers with higher incomes also tend to be less price sensitive than lower-income travellers.

  In the case of regional and local air travel in Canada, price sensitivity will depend on the purpose of travel - some airports may have a higher percentage of business travellers, while others may cater to tourists. In cases where air travel provides the only access into a community, consumers will be less price sensitive.

For small carriers, loss of 1 or 2 passengers can make operating unprofitable

  Many communities are particularly concerned about the impact of increased travel costs on tourism. A major portion of tourism is very price sensitive in that it has a large range of alternatives - do we go fishing in Northern Manitoba or in Wisconsin? Do we not go at all? The viability of air service in small communities can rely on very small differences in traffic. For carriers operating 19 seat or 36 seat aircraft, a decrease of only one or two passengers per trip can mean that the operation moves from profit to loss.

Airport operators, as well as airlines need to be concerned about money being extracted from aviation. Higher travel costs mean reduced travel which in turn will result in reduced revenues to the airports.

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[9] Sypher:Mueller International "The Impact of GST on Transborder Air Travel" for the Air Transportation Association of Canada, 1992.

C. Pro Forma Financial Forecasts - Airports Grouped by Traffic and Form of Governance

To provide one perspective of current and future financial health of the study airports, pro forma financial forecasts to 2020 were prepared for groups of these airports:

- Municipally owned and operated with less than 50,000 e/d passengers in 2001;
- Authority airports with less than 50,000 e/d passengers in 2001;
- Municipally owned and operated with more than 50,000 e/d passengers;
- Municipally owned, but authority operated with more than 50,000 e/d passengers;
- Authority owned and operated with more than 50,000 e/d passengers; and
- NAS airports.

The methods and assumptions made in preparing these pro forma forecasts were:

- Base year data was 2001, except where only 2000 data was available;
- Common line items were prepared for the accounts for all airports. In some cases this meant consolidating line items that were more detailed on some statements;
- Airports with outlying data (extremes of revenues, costs, unique revenues or costs) or no financial data were removed, and simple averages were made of the revenue and expense items for the remaining airports in each group. This only affected the first group (municipal airports with less than 50,000 e/d passengers – five very small airports with no scheduled service or very little scheduled service were omitted);
- All forecasts are in constant 2001 dollars;
- Insurance costs were tripled from 2001 on, due to Sept. 11 2001 events;
- Where applicable, security costs were doubled from 2001 on, due to 11 September 2001 events;

- Where depreciation was not included in the airport statements, it was estimated using the depreciation levels of reporting airports;
- The passenger traffic forecasts used to develop the financial forecasts are:
  - Zero growth to 2020; and
  - Pessimistic to 2005 (1.6% decline per year, consistent with the recent past);
  - Optimistic to 2020 (2% increase per year);
- The following revenue elements vary in direct relation with passenger volumes: landing fees, terminal fees, aircraft parking, fuel sales, airport improvement fee;
- Utilities and fuel expenses vary in direct relation with passenger traffic volumes;
- Salaries and benefits, management contracts and professional services are increased 3% in real terms in each five year period (i.e. 12.6% real growth to 2020);
- Although the operating costs at some airports are related to excess facilities, no downsizing capital projects were assumed;
- No relief from municipal property taxes was assumed where property taxes are in effect today; and
- A common investment bank test of ability to finance debt for airport capital improvements is the debt coverage, which is net revenue (gross revenue less operating and maintenance expenses) divided by annual interest and principal payments on bond debt.[10] This ratio should be greater than 1.25. The cash flow divided by 1.25 can therefore serve as a quick test of the amount of bond or mortgage debt an airport can carry. This calculation is included in each of the pro formas.

Some groupings have additional assumptions relating to AIFs and amortization, and these are identified with each forecast.

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[10] Moody's on Airports – the Fundamentals of Airport Debt, Moody's Public Finance Department, 1992

Municipally Owned/Operated Airports with Less than 50,000 e/d Passengers

Exhibit IV-1 is the zero growth pro forma financial forecast for a typical municipally owned and operated airport with less than 50,000 e/d passengers. Exhibit IV-2 shows the pessimistic and optimistic traffic growth pro forma for these same airports.

Airports in this group are financially weak, only showing an operating surplus in 2020 under optimistic passenger growth assumptions. In the zero passenger growth scenario, expenses increase in real terms while revenues remain constant so that the financial situation for these airports deteriorates. Traffic growth is essential to even maintain existing annual deficit levels.

The five airports in this group that were not used in creating the averages for the pro forma have very low traffic levels (an average of 2,480 annual e/d passengers) and have even less potential to be financially viable.

Authority Owned/Operated Airports with Less than 50,000 e/d Passengers

In 2000, there were three authority airports with less than 50,000 annual e/d passengers, but by 2001, there were only two airports in this group (the third had more than 50,000 e/d passengers in 2001), and these two airports were used to create a typical pro forma for this group. Exhibit IV-3 summarizes the zero growth scenario, and Exhibit IV-4 the pessimistic and optimistic growth scenarios. These airports have very low traffic levels and cannot achieve a positive cash flow under any traffic scenario.

This group of airports has exceptional requirements for external financial support, primarily because of very low traffic levels. It appears that ongoing support of approximately $300,000 per year will be required for each of these airports.

Exhibit IV-1. Zero Passenger Growth Pro Forma Financial Forecast for a Typical Municipally Owned & Operated Airport with less than 50,000 Annual e/d Passengers in 2001. Constant 2001$

	2005	2010	2020
E/D Passengers (Average)	23,028	23,028	23,028
Aviation Revenues			
Landing Fees	$126,868	$126,868	$126,868
Terminal Fees	$47,250	$47,250	$47,250
Aircraft Parking	$5,660	$5,660	$5,660
AIF/PFC	$63,743	$63,743	$63,743
Fuel Sales	$155,816	$155,816	$155,816
Other	$9,667	$9,667	$9,667
Total Aviation Revenue	$409,004	$409,004	$409,004
Commercial Revenues			
Concessions	$21,712	$21,712	$21,712
Land Leases	$33,506	$33,506	$33,506
Vehicle Parking	$10,656	$10,656	$10,656
Office Rent	$8,426	$8,426	$8,426
Taxi	$23,642	$23,642	$23,642
Other	$4,749	$4,749	$4,749
Total Commercial Revenues	$102,690	$102,690	$102,690
Other Revenues			
Subsidies & Grants	$0	$0	$0
Interest	$7,119	$7,119	$7,119
Sales of Assets	$0	$0	$0
Other	$50,158	$50,158	$50,158
Total Other Revenue	$57,277	$57,277	$57,277
Total Revenues	**$568,972**	**$568,972**	**$568,972**
Expenses			
Salaries/Wages/Benefits	$298,782	$307,746	$326,488
Training	$1,486	$1,486	$1,486
Materials,Parts,Supplies,Repairs	$96,214	$96,214	$96,214
Facility Management Contracts	$36,543	$37,639	$39,932
Professional Services	$ 9,478	$9,762	$10,357
Property Taxes	$10,111	$10,111	$10,111
Utilities/Fuel	$83,725	$83,725	$83,725
Depreciation/Amortization	$100,000	$100,000	$100,000
Insurance	$35,400	$35,400	$35,400
Interest Expenses	$0	$0	$0
Other Expenses	$ 88,848	$88,848	$88,848
Airport Chattels/TC Lease	$0	$0	$0
Total Expenses	**$760,587**	**$770,931**	**$792,560**
Net Income	**($191,615)**	**($201,959)**	**($223,588)**
Less Subsidies & Grants	$0	$0	$0
Net before Grants	($191,615)	($201,959)	($223,588)
Add back Deprec./Amortization	$100,000	$100,000	$100,000
Cash Flow before Grants	($91,615)	($101,959)	($123,588)
Debt Cover			
Debt Service at 1.25 Cover	($73,292)	($81,567)	($98,870)
Debt Capability, 5%, 20 Yr	$0	$0	$0

Six Airports used to Create Average.

Exhibit IV-2. Low and High Passenger Growth Pro Forma Financial Forecast for a Typical Municipally Owned & Operated Airport with less than 50,000 Annual e/d Passengers in 2001. Constant 2001$

	2005		2010	2020
	Pessimistic -1.6%/year Decline	Optimistic 2%/year Growth	2%/yr Growth	2%/yr Growth
E/D Passengers (Average)	21,271	25,424	28,071	34,218
Aviation Revenues				
Landing Fees	$117,188	$140,073	$154,652	$188,520
Terminal Fees	$43,645	$52,168	$57,598	$70,211
Aircraft Parking	$5,228	$6,249	$6,899	$8,410
AIF/PFC	$58,879	$70,377	$77,702	$94,719
Fuel Sales	$143,927	$172,033	$189,939	$231,534
Other	$9,667	$9,667	$9,667	$9,667
Total Aviation Revenue	$378,535	$450,567	$496,457	$603,061
Commercial Revenues				
Concessions	$20,055	$23,972	$26,467	$32,263
Land Leases	$33,506	$33,506	$33,506	$49,788
Vehicle Parking	$9,843	$11,765	$12,989	$15,834
Office Rent	$8,426	$8,426	$8,426	$8,426
Taxi	$21,838	$26,103	$28,819	$35,131
Other	$4,749	$4,749	$4,749	$4,749
Total Commercial Revenues	$98,417	$108,520	$114,956	$146,190
Other Revenues				
Subsidies & Grants	$0	$0	$0	$0
Interest	$7,119	$7,119	$7,119	$7,119
Sales of Assets	$0	$0	$0	$0
Other	$50,158	$50,158	$50,158	$50,158
Total Other Revenue	$57,277	$57,277	$57,277	$57,277
Total Revenues	**$534,229**	**$616,365**	**$668,690**	**$806,529**
Expenses				
Salaries/Wages/Benefits	$298,782	$298,782	$307,746	$326,488
Training	$1,486	$1,486	$1,486	$1,486
Materials,Parts,Supplies,Repairs	$96,214	$96,214	$96,214	$96,214
Facility Management Contracts	$36,543	$36,543	$37,639	$39,932
Professional Services	$9,478	$ 9,478	$9,762	$10,357
Property Taxes	$10,111	$10,111	$10,111	$10,111
Utilities/Fuel	$77,337	$92,439	$102,060	$124,411
Depreciation/Amortization	$100,000	$100,000	$100,000	$100,000
Insurance	$35,400	$35,400	$35,400	$35,400
Interest Expenses	$0	$0	$0	$0
Other Expenses	$88,848	$ 88,848	$88,848	$88,848
Airport Chattels/TC Lease	$0	$0	$0	$0
Total Expenses	**$754,199**	**$769,301**	**$789,266**	**$833,245**
Net Income	**($219,970)**	**($152,936)**	**($120,576)**	**($26,717)**
Less Subsidies & Grants	$0	$0	$0	$0
Net before Grants	($219,970)	($152,936)	($120,576)	($26,717)
Add back Deprec./Amortization	$100,000	$100,000	$100,000	$100,000
Cash Flow before Grants	($119,970)	($52,936)	($20,576)	$73,283
Debt Cover				
Debt Service at 1.25 Cover	($95,976)	($42,349)	($16,461)	$58,627
Debt Capability, 5%, 20 Yr	$0	$0	$0	$730,618

Six Airports used to Create Average.

Exhibit IV-3. Zero Passenger Growth Pro Forma Financial Forecast for an Authority Owned & Operated Airport with less than 50,000 Annual e/d Passengers in 2001. Constant 2001$

	2005	2010	2020
E/D Passengers (Average)	7,500	7,500	7,500
Aviation Revenues			
Landing Fees			
Terminal Fees			
Aircraft Parking			
AIF/PFC			
Fuel Sales			
Other			
Total Aviation Revenue	$ 182,724	$182,724	$182,724
Commercial Revenues			
Concessions			
Land Leases			
Vehicle Parking			
Office Rent			
Taxi			
Other			
Total Commercial Revenues	$ 92,736	$92,736	$92,736
Other Revenues			
Subsidies & Grants	$ 320,818	$320,818	$320,818
Interest	$ 35,145	$35,145	$35,145
Sales of Assets	$0	$0	$0
Other	$ 5,804	$5,804	$5,804
Total Other Revenue	$361,766	$361,766	$361,766
Total Revenues	**$ 637,225**	**$637,225**	**$637,225**
Expenses			
Salaries/Wages/Benefits	$ 200,428	$206,441	$219,013
Training	$ 4,220	$4,220	$4,220
Materials,Parts,Supplies,Repairs	$ 49,307	$49,307	$49,307
Facility Management Contracts	$88,785	$91,448	$97,017
Professional Services	$ 11,115	$11,449	$12,146
Property Taxes	$ 90,113	$90,113	$90,113
Utilities/Fuel	$ 71,283	$73,421	$77,893
Depreciation/Amortization	$ 46,568	$46,568	$46,568
Insurance	$ 44,670	$44,670	$44,670
Interest Expenses	$ 594	$594	$594
Other Expenses	$ 77,626	$77,626	$77,626
Airport Chattels/TC Lease	$0	$0	$0
Total Expenses	**$684,707**	**$695,855**	**$719,165**
Net Income	**($47,482)**	**($58,631)**	**($81,941)**
Less Subsidies & Grants	$320,818	$320,818	$320,818
Net before Grants	($368,300)	($379,448)	($402,758)
Add back Deprec./Amortization	$46,568	$46,568	$46,568
Cash Flow before Grants	($321,732)	($332,881)	($356,191)
Debt Cover			
Debt Service at 1.25 Cover	($257,386)	($266,305)	($284,953)
Debt Capability, 5%, 20 Yr	$0	$0	$0

Two Airports used to Create Average.

Exhibit IV-4. Low and High Passenger Growth Pro Forma Forecasts for an Authority Owned & Operated Airport with less than 50,000 Annual e/d Passengers in 2001. Constant 2001$

	2005		2010	2020
	Pessimistic	Optimistic		
	-1.6%/year Decline	2%/year Growth	2%/yr Growth	2%/yr Growth
E/D Passengers (Average)	6,928	8,281	9,142	11,145
Aviation Revenues				
Landing Fees				
Terminal Fees				
Aircraft Parking				
AIF/PFC				
Fuel Sales				
Other				
Total Aviation Revenue	$169,111	$201,292	$221,793	$269,419
Commercial Revenues				
Concessions				
Land Leases				
Vehicle Parking				
Office Rent				
Taxi				
Other				
Total Commercial Revenues	$88,876	$98,000	$103,812	$132,018
Other Revenues				
Subsidies & Grants	$320,818	$320,818	$320,818	$320,818
Interest	$35,145	$35,145	$35,145	$35,145
Sales of Assets	$0	$0	$0	$0
Other	$5,804	$5,804	$5,804	$5,804
Total Other Revenue	$361,766	$361,766	$361,766	$361,766
Total Revenues	**$ 619,753**	**$661,057**	**$687,371**	**$763,203**
Expenses				
Salaries/Wages/Benefits	$200,428	$200,428	$206,441	$219,013
Training	$4,220	$4,220	$4,220	$4,220
Materials,Parts,Supplies,Repairs	$49,307	$49,307	$49,307	$49,307
Facility Management Contracts	$88,785	$88,785	$91,448	$97,017
Professional Services	$11,115	$ 11,115	$11,449	$12,146
Property Taxes	$90,113	$90,113	$90,113	$90,113
Utilities/Fuel	$ 65,844	$ 78,702	$73,421	$77,893
Depreciation/Amortization	$46,568	$46,568	$46,568	$46,568
Insurance	$44,670	$44,670	$44,670	$44,670
Interest Expenses	$594	$594	$594	$594
Other Expenses	$77,626	$ 77,626	$77,626	$77,626
Airport Chattels/TC Lease	$0	$0	$0	$0
Total Expenses	**$679,268**	**$692,126**	**$695,855**	**$719,165**
Net Income	**($59,515)**	**($31,069)**	**($8,484)**	**$44,037**
Less Subsidies & Grants	$320,818	$320,818	$320,818	$320,818
Net before Grants	($380,333)	($351,886)	($329,302)	($276,780)
Add back Deprec./Amortization	$46,568	$46,568	$46,568	$46,568
Cash Flow before Grants	($333,765)	($305,319)	($282,734)	($230,213)
Debt Cover				
Debt Service at 1.25 Cover	($267,012)	($244,255)	($226,188)	($184,170)
Debt Capability, 5%, 20 Yr	$0	$0	$0	$0

Two Airports used to Create Average.

Municipally Owned/Operated Airports with More than 50,000 e/d Passengers

Exhibits IV-5 and IV-6 are the pro forma financial forecasts for a typical municipally owned and operated airport with more than 50,000 e/d passengers. The two airports in this group do not currently have an AIF/PFC and are assumed to not implement this charge throughout the forecast period. Under the zero growth scenario, these airports do not achieve positive cash flow. If traffic grows by 2% or more, airports in this group would typically see a positive cash flow on or before 2010.

Municipally Owned but Authority Operated Airports with More than 50,000 e/d Passengers

Exhibits IV-7 and IV-8 are the pro forma financial forecasts for a typical municipally owned but authority operated airport with more than 50,000 e/d passengers. These airports, with an average of 66,000 annual e/d passengers today, show a positive cash flow in 2005. Without traffic growth this deteriorates over time. With 2% or more traffic growth, these airports generate substantial cash flow as early as 2005 and can potentially be financially sound for both operations and capital investment.

Exhibit IV-5. Zero Passenger Growth Pro Forma Financial Forecast for a Typical Municipally Owned/Operated Airport with More than 50,000 Annual E/D Passengers in 2001. Constant 2001$

	2005	2010	2020
E/D Passengers (Average)	147,000	147,000	147,000
Aviation Revenues			
Landing Fees	$370,891	$370,891	$370,891
Terminal Fees	$232,012	$232,012	$232,012
Aircraft Parking	$15,452	$15,452	$15,452
AIF/PFC	$0	$0	$0
Fuel Sales	$17,611	$17,611	$17,611
Other	$544	$544	$544
Total Aviation Revenues	$636,510	$636,510	$636,510
Commercial Revenues			
Concessions	$139,665	$139,665	$139,665
Land Leases	$45,169	$45,169	$45,169
Vehicle Parking	$170,711	$170,711	$170,711
Office Rent	$74,093	$74,093	$74,093
Taxi	$6,303	$6,303	$6,303
Other	$47,993	$47,993	$47,993
Total Commercial Revenues	$483,933	$483,933	$483,933
Other Revenues			
Subsidies & Grants	$0	$0	$0
Interest	$7,573	$7,573	$7,573
Sales of Assets	$0	$0	$0
Other	$19,905	$19,905	$19,905
Total Other Revenues	$27,477	$27,477	$27,477
Total Revenues	**$1,147,920**	**$1,147,920**	**$1,147,920**
Expenses			
Salaries/Wages/Benefits	$408,387	$420,639	$446,256
Training	$3,374	$3,374	$3,374
Materials,Parts,Supplies,Repairs	$171,210	$171,210	$171,210
Facility Management Contracts	$130,500	$134,415	$142,601
Professional Services	$ 47,277	$47,277	$47,277
Property Taxes	$0	$0	$0
Utilities/Fuel	$108,192	$108,192	$108,192
Depreciation/Amortization	$150,000	$150,000	$150,000
Insurance	$64,298	$64,298	$64,298
Interest Expenses	$0	$0	$0
Other Expenses	$ 317,288	$317,288	$317,288
Airport Chattels/TC Lease	$0	$0	$0
Total Expenses	**$1,400,525**	**$1,416,691**	**$1,450,494**
Net Income	**($252,605)**	**($268,772)**	**($302,575)**
Less Subsidies & Grants	$0	$0	$0
Net before Grants	($252,605)	($268,772)	($302,575)
Add back Deprec./Amortization	$150,000	$150,000	$150,000
Cash Flow before Grants	($102,605)	($118,772)	($152,575)
Debt Cover			
Debt Service at 1.25 Cover	($82,084)	($95,018)	($122,060)
Debt Capability, 5%, 20 Yr	$0	$0	$0

Two Airports used to Create Average.

Exhibit IV-6. Low and High Passenger Growth Pro Forma Financial Forecasts for a Typical Municipally Owned/Operated Airport with More than 50,000 Annual E/D Passengers in 2001. Constant 2001$

	2005		2010	2020
	Pessimistic -1.6%/year Decline	**Optimistic 2%/year Growth**	**2%/yr Growth**	**2%/yr Growth**
E/D Passengers (Average)	135,784	162,300	179,192	218,434
Aviation Revenues				
Landing Fees	$342,592	$409,494	$452,114	$551,125
Terminal Fees	$214,309	$256,160	$282,821	$344,758
Aircraft Parking	$14,273	$17,060	$18,836	$22,961
AIF/PFC	$0	$0	$0	$0
Fuel Sales	$16,267	$19,443	$21,467	$26,168
Other	$544	$544	$544	$544
Total Aviation Revenues	$587,985	$702,701	$775,782	$945,555
Commercial Revenues				
Concessions	$129,009	$154,201	$170,251	$207,535
Land Leases	$45,169	$45,169	$45,169	$45,169
Vehicle Parking	$157,686	$188,479	$208,096	$253,668
Office Rent	$74,093	$74,093	$74,093	$74,093
Taxi	$5,822	$6,958	$7,683	$9,365
Other	$47,993	$47,993	$47,993	$47,993
Total Commercial Revenues	$459,770	$516,893	$553,284	$637,822
Other Revenues				
Subsidies & Grants	$0	$0	$0	$0
Interest	$7,573	$7,573	$7,573	$7,573
Sales of Assets	$0	$0	$0	$0
Other	$19,905	$19,905	$19,905	$19,905
Total Other Revenues	$27,477	$27,477	$27,477	$27,477
Total Revenues	**$1,075,233**	**$1,247,071**	**$1,356,543**	**$1,610,854**
Expenses				
Salaries/Wages/Benefits	$408,387	$408,387	$420,639	$446,256
Training	$3,374	$3,374	$3,374	$3,374
Materials,Parts,Supplies,Repairs	$171,210	$171,210	$171,210	$171,210
Facility Management Contracts	$130,500	$130,500	$134,415	$142,601
Professional Services	$47,277	$ 47,277	$47,277	$47,277
Property Taxes	$0	$0	$0	$0
Utilities/Fuel	$99,937	$119,453	$131,885	$160,768
Depreciation/Amortization	$150,000	$150,000	$150,000	$150,000
Insurance	$64,298	$64,298	$64,298	$64,298
Interest Expenses	$0	$0	$0	$0
Other Expenses	$317,288	$317,288	$317,288	$317,288
Airport Chattels/TC Lease	$0	$0	$0	$0
Total Expenses	**$1,392,270**	**$1,411,785**	**$1,440,385**	**$1,503,070**
Net Income	**($317,037)**	**($164,714)**	**($83,842)**	**$107,785**
Less Subsidies & Grants	$0	$0	$0	$0
Net before Grants	($317,037)	($164,714)	($83,842)	$107,785
Add back Deprec./Amortization	$150,000	$150,000	$150,000	$150,000
Cash Flow before Grants	($167,037)	($14,714)	$66,158	$257,785
Debt Cover				
Debt Service at 1.25 Cover	($133,630)	($11,771)	$52,927	$206,228
Debt Capability, 5%, 20 Yr	$0	$0	$659,584	$2,570,052

Two Airports used to Create Average.

Exhibit IV-7. Zero Passenger Growth Pro Forma Financial Forecast for a Typical Municipally Owned, Authority Operated Airport with More than 50,000 Annual E/D Passengers in 2001. Constant 2001$

	2005	2010	2020
E/D Passengers (Average)	66,000	66,000	66,000
Aviation Revenues			
Landing Fees	$33,989	$33,989	$33,989
Terminal Fees	$11,990	$11,990	$11,990
Aircraft Parking	$4,549	$4,549	$4,549
AIF/PFC	$548,990	$548,990	$548,990
Fuel Sales	$12,915	$12,915	$12,915
Other	$0	$0	$0
Total Aviation Revenues	$612,432	$612,432	$612,432
Commercial Revenues			
Concessions	$49,231	$49,231	$49,231
Land Leases	$14,987	$14,987	$14,987
Vehicle Parking	$42,651	$42,651	$42,651
Office Rent	$29,748	$29,748	$29,748
Taxi	$21,722	$21,722	$21,722
Other	$130,538	$130,538	$130,538
Total Commercial Revenues	$288,877	$288,877	$288,877
Other Revenues			
Subsidies & Grants	$0	$0	$0
Interest	$39,585	$39,585	$39,585
Sales of Assets	$0	$0	$0
Other	$8,927	$8,927	$8,927
Total Other Revenues	$48,511	$48,511	$48,511
Total Revenues	**$949,819**	**$949,819**	**$949,819**
Expenses			
Salaries/Wages/Benefits	$513,685	$529,095	$561,317
Training	$18,245	$18,245	$18,245
Materials,Parts,Supplies,Repairs	$40,237	$40,237	$40,237
Facility Management Contracts	$0	$0	$0
Professional Services	$59,149	$60,924	$64,634
Property Taxes	$8,335	$8,335	$8,335
Utilities/Fuel	$70,342	$70,342	$70,342
Depreciation/Amortization	$200,000	$200,000	$200,000
Insurance	$61,749	$61,749	$61,749
Interest expenses	$0	$0	$0
Other Expenses	$143,467	$143,467	$143,467
Airport Chattels/TC Lease	$0	$0	$0
Total Expenses	**$1,115,207**	**$1,132,393**	**$1,168,325**
Net Income	**($165,388)**	**($182,574)**	**($218,506)**
Less Subsidies & Grants	$0	$0	$0
Net before Grants	($165,388)	($182,574)	($218,506)
Add back Deprec./Amortization	$200,000	$200,000	$200,000
Cash Flow before Grants	$34,612	$17,426	($18,506)
Debt Cover			
Debt Service at 1.25 Cover	$27,689	$13,941	($14,805)
Debt Capability, 5%, 20 Yr	$345,069	$173,738	$0

Two Airports used to Create Average.

Exhibit IV-8. Low and High Passenger Growth Pro Forma Financial Forecasts for a Typical Municipally Owned, Authority Operated Airport with More than 50,000 Annual E/D Passengers in 2001. Constant 2001$

	2005		2010	2020
	Pessimistic -1.6%/year Decline	Optimistic 2%/year Growth	2%/yr Growth	2%/yr Growth
E/D Passengers (Average)	60,964	72,869	80,454	98,073
Aviation Revenues				
Landing Fees	$31,395	$37,526	$41,432	$50,505
Terminal Fees	$11,075	$13,237	$14,615	$17,816
Aircraft Parking	$4,201	$5,022	$5,545	$6,759
AIF/PFC	$507,102	$606,129	$669,216	$815,770
Fuel Sales	$11,930	$14,259	$15,743	$19,191
Other	$0	$0	$0	$0
Total Aviation Revenues	$565,703	$676,174	$746,551	$910,041
Commercial Revenues				
Concessions	$45,474	$54,354	$60,012	$73,154
Land Leases	$14,987	$14,987	$14,987	$14,987
Vehicle Parking	$39,397	$47,090	$51,991	$63,377
Office Rent	$29,748	$29,748	$29,748	$29,748
Taxi	$20,065	$23,983	$26,479	$32,278
Other	$130,538	$130,538	$159,125	$193,973
Total Commercial Revenues	$280,209	$300,700	$342,342	$407,516
Other Revenues				
Subsidies & Grants	$0	$0	$0	$0
Interest	$39,585	$39,585	$39,585	$39,585
Sales of Assets	$0	$0	$0	$0
Other	$8,927	$8,927	$8,927	$8,927
Total Other Revenues	$48,511	$48,511	$48,511	$48,511
Total Revenues	**$894,423**	**$1,025,385**	**$1,137,404**	**$1,366,068**
Expenses				
Salaries/Wages/Benefits	$513,685	$513,685	$529,095	$561,317
Training	$18,245	$18,245	$18,245	$18,245
Materials,Parts,Supplies,Repairs	$40,237	$40,237	$40,237	$40,237
Facility Management Contracts	$0	$0	$0	$0
Professional Services	$59,149	$59,149	$60,924	$64,634
Property Taxes	$8,335	$8,335	$8,335	$8,335
Utilities/Fuel	$64,975	$77,663	$85,747	$104,525
Depreciation/Amortization	$200,000	$200,000	$200,000	$200,000
Insurance	$61,749	$61,749	$61,749	$61,749
Interest expenses	$0	$0	$0	$0
Other Expenses	$143,467	$143,467	$143,467	$143,467
Airport Chattels/TC Lease	$0	$0	$0	$0
Total Expenses	**$1,109,840**	**$1,122,529**	**$1,147,797**	**$1,202,507**
Net Income	**($215,418)**	**($97,143)**	**($10,393)**	**$163,561**
Less Subsidies & Grants	$0	$0	$0	$0
Net before Grants	($215,418)	($97,143)	($10,393)	$163,561
Add back Deprec./Amortization	$200,000	$200,000	$200,000	$200,000
Cash Flow before Grants	($15,418)	$102,857	$189,607	$363,561
Debt Cover				
Debt Service at 1.25 Cover	($12,334)	$82,285	$151,685	$290,849
Debt Capability, 5%, 20 Yr	$0	$1,025,456	$1,890,335	$3,624,621

Two Airports used to Create Average.

Authority Owned and Operated Airports with More than 50,000 e/d Passengers

Exhibits IV-9 and IV-10 are the pro forma financial forecasts for a typical authority owned and operated airport with more than 50,000 e/d passengers. Average passenger levels are 94,429 in 2001, increasing to as much as 140,316 in 2020 under the optimistic passenger growth scenario. Airports in this group are considerably stronger financially than the previous groups. For the average revenues and expenses used from seven airports, there is a cash surplus (net cash before grants) in 2005 and this prevails throughout all scenarios. These airports should, on average be financially sound. The average does hide some disparities and several airports in this group are weaker – see the analysis in the next Chapter regarding viability.

NAS Airports

Exhibits IV-11 and IV-12 are the pro forma financial forecast for a typical small NAS airport for the zero traffic growth and low/high growth scenarios respectively. These airports are unusual in that, although they have similar traffic levels to some of the other airports in this study, they are not eligible for ACAP funding, are required to pay Transport Canada for the chattels transferred to the airport authorities, and are required to pay rent, although this has typically been deferred well into the future. Based on the ground lease of one of these airports, ground rent is estimated for 2020 when it would be in effect.

Under the zero traffic growth scenario, these airports will be in a cash loss position in 2020. If passenger traffic grows at 2% or more, they will be financially sound throughout the forecast period.

The anomaly with these airports is that the future requirement to repay chattels and to pay ground rent makes them financially weaker than other airports of a similar size. The effect of future rent coming into play in 2016 will affect borrowing capability even today, as potential lenders do their own due diligence on future cash flow from operations.

Exhibit IV-9. Zero Passenger Growth Pro Forma Financial Forecast for a Typical Authority Owned and Operated Airport with More than 50,000 Annual E/D Passengers in 2001. Constant 2001$

	2005	2010	2020
E/D Passengers (Average)	94,429	94,429	94,429
Aviation Revenues			
Landing Fees	$409,133	$409,133	$409,133
Terminal Fees	$283,334	$283,334	$283,334
Aircraft Parking	$9,254	$9,254	$9,254
AIF/PFC	$472,000	$472,000	$472,000
Fuel Sales	$281,943	$281,943	$281,943
Other	$135,741	$135,741	$135,741
Total Aviation Revenues	$1,591,405	$1,591,405	$1,591,405
Commercial Revenues			
Concessions	$197,628	$197,628	$197,628
Land Leases	$131,614	$131,614	$131,614
Vehicle Parking	$136,834	$136,834	$136,834
Office Rent	$14,994	$14,994	$14,994
Taxi	$0	$0	$0
Other	$52,727	$52,727	$52,727
Total Commercial Revenue	$533,797	$533,797	$533,797
Other Revenues			
Subsidies & Grants	$22,434	$22,434	$22,434
Interest	$19,835	$19,835	$19,835
Sales of Assets	$0	$0	$0
Other	$213,197	$213,197	$213,197
Total Other Revenues	$255,466	$255,466	$255,466
Total Revenues	**$2,380,668**	**$2,380,668**	**$2,380,668**
Expenses			
Salaries/Wages/Benefits	$653,694	$673,305	$714,309
Training	$387	$387	$387
Materials,Parts,Supplies,Repairs	$106,725	$106,725	$106,725
Facility Management Contracts	$111,000	$114,330	$121,292
Professional Services	$ 86,441	$86,441	$86,441
Property Taxes	$97,230	$97,230	$97,230
Utilities/Fuel	$340,945	$340,945	$340,945
Depreciation/Amortization	$299,455	$299,455	$299,455
Insurance	$74,367	$74,367	$74,367
Interest Expenses	$4,159	$4,159	$4,159
Other Expenses	$ 518,360	$518,360	$518,360
Airport Chattels/TC Lease	$0	$0	$0
Total Expenses	**$2,292,764**	**$2,315,705**	**$2,363,672**
Net Income	**$87,904**	**$64,963**	**$16,996**
Less Subsidies & Grants	$22,434	$22,434	$22,434
Net before Grants	$65,470	$42,529	($5,437)
Add back Deprec./Amortization	$299,455	$299,455	$299,455
Cash Flow before Grants	$364,926	$341,985	$294,018
Debt Cover			
Debt Service at 1.25 Cover	$291,941	$273,588	$235,214
Debt Capability, 5%, 20 Yr	$3,638,225	$3,409,510	$2,931,291

Seven Airports used to Create Average.

Exhibit IV-10. Low and High Passenger Growth Pro Forma Financial Forecasts for a Typical Authority Owned and Operated Airport with More than 50,000 Annual E/D Passengers in 2001. Constant 2001$

	2005		2010	2020
	Pessimistic -1.6%/year Decline	Optimistic 2%/year Growth	2%/yr Growth	2%/yr Growth
E/D Passengers (Average)	87,224	104,257	115,108	140,316
Aviation Revenues				
Landing Fees	$377,916	$451,716	$498,731	$607,950
Terminal Fees	$261,716	$312,824	$345,383	$421,019
Aircraft Parking	$8,548	$10,217	$11,281	$13,751
AIF/PFC	$435,986	$521,126	$575,365	$701,367
Fuel Sales	$260,431	$311,288	$343,687	$418,953
Other	$135,741	$135,741	$135,741	$135,741
Total Aviation Revenues	$1,480,338	$1,742,912	$1,910,188	$2,298,782
Commercial Revenues				
Concessions	$182,549	$218,198	$240,908	$293,665
Land Leases	$131,614	$131,614	$131,614	$131,614
Vehicle Parking	$126,393	$151,075	$166,799	$203,328
Office Rent	$14,994	$14,994	$14,994	$14,994
Taxi	$0	$0	$0	$0
Other	$52,727	$52,727	$52,727	$52,727
Total Commercial Revenue	$508,277	$568,608	$607,042	$696,328
Other Revenues				
Subsidies & Grants	$22,434	$22,434	$22,434	$22,434
Interest	$19,835	$19,835	$19,835	$19,835
Sales of Assets	$0	$0	$0	$0
Other	$213,197	$213,197	$213,197	$213,197
Total Other Revenues	$255,466	$255,466	$255,466	$255,466
Total Revenues	**$2,244,081**	**$2,566,986**	**$2,772,696**	**$3,250,575**
Expenses				
Salaries/Wages/Benefits	$653,694	$653,694	$673,305	$714,309
Training	$387	$387	$387	$387
Materials,Parts,Supplies,Repairs	$106,725	$106,725	$106,725	$106,725
Facility Management Contracts	$111,000	$111,000	$114,330	$121,292
Professional Services	$86,441	$86,441	$86,441	$86,441
Property Taxes	$97,230	$97,230	$97,230	$97,230
Utilities/Fuel	$314,931	$376,431	$415,610	$506,626
Depreciation/Amortization	$299,455	$299,455	$299,455	$299,455
Insurance	$74,367	$74,367	$74,367	$74,367
Interest Expenses	$4,159	$4,159	$4,159	$4,159
Other Expenses	$518,360	$518,360	$518,360	$518,360
Airport Chattels/TC Lease	$0	$0	$0	$0
Total Expenses	**$2,266,750**	**$2,328,250**	**$2,390,370**	**$2,529,353**
Net Income	**($22,669)**	**$238,736**	**$382,326**	**$721,222**
Less Subsidies & Grants	$22,434	$22,434	$22,434	$22,434
Net before Grants	($45,102)	$216,302	$359,892	$698,788
Add back Deprec./Amortization	$299,455	$299,455	$299,455	$299,455
Cash Flow before Grants	$254,353	$515,758	$659,347	$998,244
Debt Cover				
Debt Service at 1.25 Cover	$203,483	$412,606	$527,478	$798,595
Debt Capability, 5%, 20 Yr	$2,535,842	$5,141,984	$6,573,542	$9,952,260

Seven Airports used to Create Average.

Exhibit IV-11. Zero Passenger Growth Pro Forma Financial Forecast for a Typical Smaller NAS Airport. Two Airports used to Create Average*. Constant 2001$

	2005	2010	2020
E/D Passengers (Average)	190,000	190,000	190,000
Aviation Revenues			
Landing Fees	$772,671	$772,671	$772,671
Terminal Fees	$647,946	$647,946	$647,946
Aircraft Parking	$11,932	$11,932	$11,932
AIF/PFC	$802,837	$802,837	$802,837
Aviation Fuel	$7,126	$7,126	$7,126
Other	$67,963	$67,963	$67,963
Total Aviation Revenues	$2,310,473	$2,310,473	$2,310,473
Commercial Revenues			
Concessions	$332,610	$332,610	$332,610
Land Leases	$124,536	$124,536	$124,536
Vehicle Parking	$218,071	$218,071	$218,071
Office Rent	$98,293	$98,293	$98,293
Taxi	$18,834	$18,834	$18,834
Other	$10,641	$10,641	$10,641
Total Commercial Revenues	$802,983	$802,983	$802,983
Other Revenues			
Subsidies & Grants	$0	$0	$0
Interest	$74,361	$74,361	$74,361
Sales of Assets	$0	$0	$0
Other	$341,443	$100,000	$100,000
Total Other Revenues	$415,804	$174,361	$174,361
Total Revenues	**$3,529,259**	**$3,287,816**	**$3,287,816**
Expenses			
Salaries/Wages/Benefits	$1,294,860	$1,333,706	$1,414,929
Training	$7,383	$7,383	$7,383
Materials,Parts,Supplies,Repairs	$476,417	$476,417	$476,417
Facility Management Contracts	$132,021	$135,982	$144,263
Professional Services	$94,981	$97,830	$103,788
Property Taxes	$151,207	$151,207	$151,207
Utilities/Fuel	$242,856	$242,856	$242,856
Depreciation/Amortization	$318,091	$318,091	$318,091
Insurance	$269,253	$269,253	$269,253
Interest Expenses	$0	$0	$0
Other Expenses	$130,000	$130,000	$130,000
Airport Chattels & TC Lease	$201,485	$201,485	$560,000
Total Expenses	**$3,318,553**	**$3,364,209**	**$3,818,186**
Net Income	**$210,706**	**($76,393)**	**($530,370)**
Less Subsidies & Grants	$0	$0	$0
Net before Grants	$210,706	($76,393)	($530,370)
Add back Deprec./Amortization	$318,091	$318,091	$318,091
Cash Flow before Grants	$528,797	$241,698	($212,279)
Debt Cover			
Debt Service at 1.25 Cover	$423,038	$193,358	($169,823)
Debt Capability, 5%, 20 Yr	$5,271,983	$2,409,673	$0

* In the short term, other revenues include items related to offsetting deferred chattel payments. These non-cash revenues cease when chattel payments start. Ground rent estimates included for 2020. Forecast revenues for 2010 and 2020 have been modified to reflect these changes.

Exhibit IV-12. Low and High Passenger Growth Financial Pro Forma Forecasts for a Typical Smaller NAS Airport. Two Airports used to Create Average*. Constant 2001$

	2005		2010	2020
	Pessimistic -1.6%/year Decline	Optimistic 2%/year Growth	2%/year Growth	2%/year Growth
E/D Passengers (Average)	175,503	209,775	231,609	282,330
Aviation Revenues				
Landing Fees	$713,716	$853,091	$941,881	$1,148,148
Terminal Fees	$598,507	$715,384	$789,842	$962,813
Aircraft Parking	$11,022	$13,174	$14,545	$17,730
AIF/PFC	$741,580	$886,396	$978,653	$1,192,973
Aviation Fuel	$6,582	$7,867	$8,686	$10,588
Other	$67,963	$67,963	$67,963	$67,963
Total Aviation Revenues	$2,139,369	$2,543,875	$2,801,570	$3,400,214
Commercial Revenues				
Concessions	$307,231	$367,228	$405,449	$494,240
Land Leases	$124,536	$124,536	$124,536	$124,536
Vehicle Parking	$201,432	$240,767	$265,827	$324,041
Office Rent	$98,293	$98,293	$98,293	$98,293
Taxi	$17,397	$20,794	$22,958	$27,986
Other	$10,641	$10,641	$10,641	$10,641
Total Commercial Revenues	$759,529	$862,258	$927,703	$1,079,737
Other Revenues				
Subsidies & Grants	$0	$0	$0	$0
Interest	$74,361	$74,361	$74,361	$74,361
Sales of Assets	$0	$0	$0	$0
Other	$341,443	$341,443	$100,000	$100,000
Total Other Revenues	$415,804	$415,804	$174,361	$174,361
Total Revenues	**$3,314,702**	**$3,821,937**	**$3,903,633**	**$4,654,311**
Expenses				
Salaries/Wages/Benefits	$1,294,860	$1,294,860	$1,333,706	$1,414,929
Training	$7,383	$7,383	$7,383	$7,383
Materials,Parts,Supplies,Repairs	$476,417	$476,417	$476,417	$476,417
Facility Management Contracts	$132,021	$132,021	$135,982	$144,263
Professional Services	$94,981	$94,981	$97,830	$103,788
Property Taxes	$151,207	$151,207	$151,207	$151,207
Utilities/Fuel	$224,326	$268,132	$296,039	$360,870
Depreciation/Amortization	$318,091	$318,091	$318,091	$318,091
Insurance	$269,253	$269,253	$269,253	$269,253
Interest Expenses	$0	$0	$0	$0
Other Expenses	$130,000	$130,000	$130,000	$130,000
Airport Chattels & TC Lease	$201,485	$201,485	$201,485	$560,000
Total Expenses	**$3,300,023**	**$3,343,830**	**$3,417,393**	**$3,936,201**
Net Income	**$14,678**	**$478,107**	**$486,240**	**$718,111**
Less Subsidies & Grants	$0	$0	$0	$0
Net before Grants	$14,678	$478,107	$486,240	$718,111
Add back Deprec./Amortization	$318,091	$318,091	$318,091	$318,091
Cash Flow before Grants	$332,769	$796,198	$804,331	$1,036,202
Debt Cover				
Debt Service at 1.25 Cover	$266,216	$636,958	$643,465	$828,961
Debt Capability, 5%, 20 Yr	$3,317,634	$7,937,909	$8,018,999	$10,330,690

* In the short term, other revenues include items related to offsetting deferred chattel payments. These non-cash revenues cease when chattel payments start. Ground rent estimates included for 2020. Forecast revenues for 2010 and 2020 have been modified to reflect these changes.

Per Enplanement Pro Forma

Exhibit IV-13 is the per enplanement financial pro forma for the airport groupings for 2020 for the zero growth forecasts. The per enplanement numbers are presented to provide a sense of scale. Total airport operating expenses range from $191.78 at the smallest airports to $19.73 per enplanement at the larger municipal airports.

Exhibit IV-13. Zero Passenger Growth Scenario. Year 2020 Revenues and Expenses per Enplaned Passenger by Airport Grouping. Constant 2001$

	Municipal with less than 50,000 e/d Passengers	Authority with less than 50,000 e/d Passengers	Municipal with over 50,000 e/d Passengers	Municipally Owned, Authority Operation with more than 50,000 e/d Passengers	Authority with more than 50,000 e/d Passengers	National Airport System Airports
Enplaned Passengers (Average)	11,514	3,750	73,500	33,000	47,214	95,000
Aviation Revenues						
Landing Fees	$11.02		$5.05	$1.03	$8.67	$8.13
Terminal Fees	$4.10		$3.16	$0.36	$6.00	$6.82
Aircraft Parking	$0.49		$0.21	$0.14	$0.20	$0.13
AIF/PFC	$5.54		$0.00	$16.64	$10.00	$8.45
Fuel Sales	$13.53		$0.24	$0.39	$5.97	$0.08
Other	$0.84		$0.01	$0.00	$2.87	$0.72
Total Aviation Revenue	**$35.52**	**$48.73**	**$8.66**	**$18.56**	**$33.71**	**$24.32**
Commercial Revenues						
Concessions	$1.89		$1.90	$1.49	$4.19	$3.50
Land Leases	$2.91		$0.61	$0.45	$2.79	$1.31
Vehicle Parking	$0.93		$2.32	$1.29	$2.90	$2.30
Office Rent	$0.73		$1.01	$0.90	$0.32	$1.03
Taxi	$2.05		$0.09	$0.66	$0.00	$0.20
Other	$0.41		$0.65	$3.96	$1.12	$0.11
Total Commercial Revenues	**$8.92**	**$24.73**	**$6.58**	**$8.75**	**$11.31**	**$8.45**
Other Revenues						
Subsidies & Grants	$0.00	$85.55	$0.00	$0.00	$0.48	$0.00
Interest	$0.62	$9.37	$0.10	$1.20	$0.42	$0.78
Sales of Assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other	$4.36	$1.55	$0.27	$0.27	$4.52	$1.05
Total Other Revenue	**$4.97**	**$96.47**	**$0.37**	**$1.47**	**$5.41**	**$1.84**
Total Revenues	**$49.42**	**$169.93**	**$15.62**	**$28.78**	**$50.42**	**$34.61**
Expenses						
Salaries/Wages/Benefits	$28.36	$58.40	$6.07	$17.01	$15.13	$14.89
Training	$0.13	$1.13	$0.05	$0.55	$0.01	$0.08
Materials,Parts,Supplies,Repairs	$8.36	$13.15	$2.33	$1.22	$2.26	$5.01
Facility Management Contracts	$3.47	$25.87	$1.94	$0.00	$2.57	$1.52
Professional Services	$0.90	$3.24	$0.64	$1.96	$1.83	$1.09
Property Taxes	$0.88	$24.03	$0.00	$0.25	$2.06	$1.59
Utilities/Fuel	$7.27	$20.77	$1.47	$2.13	$7.22	$2.56
Depreciation/Amortization	$8.69	$12.42	$2.04	$6.06	$6.34	$3.35
Insurance	$3.07	$11.91	$0.87	$1.87	$1.58	$2.83
Interest Expenses	$0.00	$0.16	$0.00	$0.00	$0.09	$0.00
Other Expenses	$7.72	$20.70	$4.32	$4.35	$10.98	$1.37
Airport Chattels/TC Lease	$0.00	$0.00	$0.00	$0.00	$0.00	$5.89
Total Expenses	**$68.84**	**$191.78**	**$19.73**	**$35.40**	**$50.06**	**$40.19**
Net Income	**($19.42)**	**($21.85)**	**($4.12)**	**($6.62)**	**$0.36**	**($5.58)**
Less Subsidies & Grants	$0.00	$85.55	$0.00	$0.00	$0.48	$0.00
Net before Grants	($19.42)	**($107.40)**	($4.12)	($6.62)	($0.12)	($5.58)
Add back Deprec./Amortization	$8.69	$12.42	$2.04	$6.06	$6.34	$3.35
Cash Flow before Grants	**($10.73)**	**($94.98)**	**($2.08)**	**($0.56)**	**$6.23**	**($2.23)**

D. Capital Investment Requirements

The study airports were requested to provide information on their forecast capital program over the next 20 years. Fifteen of the twenty six airports supplied a capital investment plan. Exhibit IV-14 summarizes the proportion of the expected capital expenditures that will be allocated to the revamping of existing facilities through the regular maintenance life-cycle, to expansion/modification projects and to revenue generating projects.

Exhibit IV-14. Consolidated Capital Investment Plan

	0 to 5 years		6 to 10 years		11 to 20 years	
Category	(000)	% of Total	(000)	% of Total	(000)	% of Total
Life-cycle Maintenance	$51,010	81%	$16,861	78%	$2,658	100%
Expansion/Modification	$5,686	9%	$4,725	22%	$0	0%
Revenue Generating	$6,307	10%	$0	0%	$0	0%
	$63,003	**100%**	**$21,586**	**100%**	**$2,658**	**100%**

A review of the data provided by the airports indicates that:

- The focus on life-cycle rehabilitation capital is logical, given that many of these airports are seeing flat or declining traffic;
- The bulk of the capital will be devoted to the rehabilitation of existing facilities and the replacement of existing equipment, with a small proportion being allocated to expansion projects during the first five years. The latter includes some of the following categories:
  - Runway extensions;
  - New taxiway construction;
  - Expansion of ramps and aprons;
  - High intensity lighting systems implementation; and
  - One terminal expansion;
- Because the majority of the airports have great difficulty breaking even on their operating budget, the capital money available for the development of revenue generating projects is almost nonexistent. Two airports reported planning some capital for the implementation of this category of projects, which include:
  - Advertising signs;
  - An aerospace development centre; and
  - An air cargo facility.

There are almost no plans for revenue generating projects

The data provided by the airports is not reliable beyond the first five year period:

- Only a few airports have capital projects already planned for the time periods "6 to 10 years" and "11 to 20 years". This explains the relatively small amounts involved compared to the previous time span and may be linked to the fact that only a little more than one third of airports have an approved master plan;
- Business planning for the very small airports is limited by capabilities and affordability; and
- Given that the asset conditions reported by airports were generally good, it would normally be expected that for five year periods beyond the first five years, life-cycle rehabilitation capital requirements would be equal to, or greater than, the amount budgeted for the first five years.

A more realistic assessment of capital requirements over the 20 year period would be four times the capital requirement identified by the airports for the next five years, or $252 million for the fifteen airports reporting, or approximately $17 million per airport.

Eleven of the fifteen airports that supplied a capital investment program are eligible for ACAP funding for the vast majority of their planned projects. Nine airports (60%) have indicated the extent to which the costs of these projects are "ACAP Financeable". This is shown on Exhibit IV-15 below specifically for these nine airports.

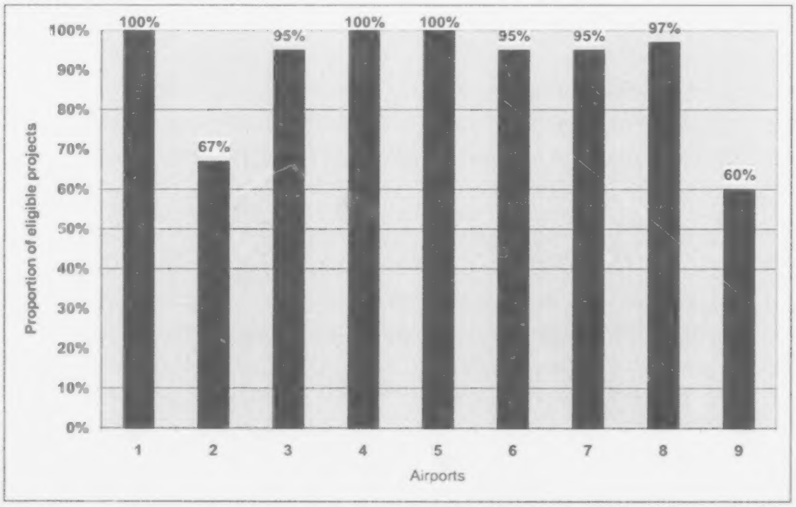

Exhibit IV-15. Eligibility of Capital Investment Programs for ACAP funding for Nine Airports Reporting

The high percentage of the planned projects that are ACAP eligible reflects, in part, the inability of the smaller airports to finance projects that are not eligible. Some stakeholders have pointed out that the narrow scope of ACAP means that some projects crucial to the future viability of these airports may not proceed.

Excluding the two NAS airports, the remaining 24 airports report a total local capital investment requirement (local contribution to ACAP funded projects, plus expansion and revenue generation projects) of $9.4 million in the next five years, and $5.2 million in the following five years (Exhibit IV-16). The following 10 years would likely entail a similar amount, for a total of approximately $28 million in required capital over the 20 year period.

Exhibit IV-16. Airport Portion of Capital Investment Required for 24 Smaller Airports

	0 to 5 years	6 to 10 years	10 to 20 years (Estimated)*
Rehabilitation Capital (Airport Portion)	$389,000	$479,000	$800,000
Expansion	$2,670,000**	$4,725,000	$7,400,000
Revenue Generating	$6,307,000	$0	$6,000,000
	$9,366,000	**$5,204,000**	**$14,200,000**

*Amounts for years 0 to 5 and 6 to 10 are as reported by airports. Amounts for years 10 to 20 are estimated based on the first 10 years as reported.

**Differs from Exhibit IV-14 because NAS airports are excluded.

Considering pro forma financials and the capital investment needs of the airports, it is obvious that some of these airports may be viable as businesses, but others not. In the next chapter, the airports are sorted by degree of viability and conclusions drawn on the future for these smaller airports.

V. ASSESSMENT OF VIABILITY

A. Introduction

Tests for viability should start with definitions. For this study airports are defined as:

- **Viable**, if there is a high probability that they will be completely viable as businesses without grants other than ACAP, capable not only of financing their operations, but also, with the use of debt to finance capital investment, capable of financing their own portion of rehabilitation, revenue generation and expansion capital requirements. For the non-NAS airports, the average 20 year capital program, net of ACAP, is $1.2 million. If a 20 year amortization period, 5% real cost of capital and a debt coverage ratio of 1.25 are assumed, then an annual cash surplus of $120,000 is the required threshold for viability. This also assumes that ACAP will continue to be funded at levels that will see all qualified projects funded. For the NAS airports, a 20 year capital program of $10 million is used (based on forecast needs and the scale of major airport rehabilitation investments), requiring an annual cash surplus $1,003,000/year at each airport, when interest and debt coverage are considered;
- **Self-sustaining**, if there is a high probability that their cash flow is such that they will be able to support themselves for operations without grants or recourse to other external financial support to cover operating losses; and
- **Not self-sustaining**, if the above tests cannot be met.

Using this approach, the study airports can be classified as viable, self-sustaining or not self-sustaining. The study airports were grouped into these categories and summary pro forma prepared based on averages for each category to determine if a clear picture would emerge of the factors that cause the airports to be viable, self-sustaining or not self-sustaining.

B. Summary Pro Forma – Airports Grouped by Financial Performance

In developing the pro forma according to the viability categories defined above:

- All 26 survey airports are included so a simplified pro forma statement is used, to reflect the less detailed financial statements of even the smallest airports. The "other revenue" and "other expense" categories in the pro forma are a catch all for all revenue and expense line items that are not otherwise identified as separate line items;

- The most recent financial data for all 26 airports was used, because some had introduced an AIF/PFC in 2001. The result is that data from 19 of the 26 airports is 2001 data. With the decline in traffic at many of these smaller airports, the use of recent historical data to assess future viability is reasonable – it may even be a best case scenario if traffic continues to decline;
- For the NAS airports, the most recent statements were adjusted to create an estimate of the impact of the ground rent on viability, as was done in Exhibits IV-11 and IV-12;

Exhibits V-1 and V-2 summarize the results of grouping the airports into these categories.

Exhibit V-1. Financial Pro Forma for Airports Grouped by Degree of Viability

	Not Self Sustaining Airports Average	Self Sustaining Airports Average	Viable Airports
Number of Airports (including NAS)	13	9	4
Average E/D Passengers[1]	19,979	69,654	104,537
Financial Pro Forma[1]			
Airport Improvement Fee	$20,776	$222,847	$172,211
Other Aviation User fees	$427,887	$489,608	$642,133
Commercial Revenue	$82,858	$364,273	$491,914
Subsidies & Grants	$66,450	$127,825	$222,102
Other	$26,868	$39,966	$505,258
Total Revenues	**$624,839**	**$1,244,519**	**$2,033,618**
Salaries & Benefits	$393,916	$417,907	$516,094
Property Taxes	$24,321	$67,235	$54,998
Depreciation	$10,353	$2,762	$445,087
Interest	$99	$572	$942
Other Expenses	$597,544	$631,117	$631,974
Total Expenses	**$1,026,232**	**$1,119,594**	**$1,649,095**
Net Income	**($401,394)**	**$124,924**	**$384,523**
Less Subsidies & Grants	$66,450	$127,825	$222,102
Net before Grants	**($467,843)**	**($2,901)**	**$162,421**
Add back Depreciation	$10,353	$2,762	$445,087
Cash Flow before Grants	**($457,491)**	**($138)**	**$607,508**

1. NAS Airports are excluded from passenger averages and average financial pro forma.

Exhibit V-2. Unit Cost, Percentages and Governance Data for Airports Grouped by Degree of Viability

	Not Self-Sustaining	Self-Sustaining	Viable
Average e/d Passenger Traffic[1]	19,979	69,654	104,537
Financial[1]			
Average Expenses per Enplanement	$102.73	$32.15	$15.78
Average Cash Flow per Enplanement before Grants	($45.80)	$0.00	$5.81
Aviation Fees/Charges as % of Total Revenue	71.8%	57.2%	40.0%
Commercial Revenue per Enplanement (excl. NAS)	$8.29	$10.46	$4.71
Governance - Number of Airports in Each Category			
Municipal with less than 50,000 e/d Passengers	8	3	0
Authority with less than 50,000 e/d Passengers	2	0	0
Municipal with more than 50,000 e/d Passengers	1	0	1
Municipally Owned, Authority Ops., more than 50,000 e/d Passengers	0	2	0
Authority with more than 50,000 e/d Passengers	1	3	3
NAS Airports	1	1	0
Total	**13**	**9**	**4**

1. NAS Airports are excluded from passenger averages and average financials.

Airports that are not Self-Sustaining

There are thirteen airports that are not self-sustaining, including one NAS airport.

For the non-NAS airports:

- The airports are primarily the smaller municipal and authority airports;
- The average traffic level is 19,979 annual e/d passengers;
- The average cash loss is $457,342 per year, or $45.78 per enplanement;
- Average expenses per enplanement are $102.72;
- Aviation fees and charges make up 71.8% of the total revenues; and
- The average commercial revenue per enplanement is $8.29.

Only two of the non-NAS airports have an AIF/PFC in place. To evaluate the impact of this type of charge on viability, an estimate was prepared of the yield to each airport from a $10 and a $20 AIF/PFC, and viability was recalculated (a $10 AIF/PFC was applied to all airports without an AIF/PFC, and a $20 AIF/PFC was applied to these airports and to airports with less than a $20 AIF/PFC today). Exhibit V-3 summarizes.

Exhibit V-3. The Impact of AIF's/PFC on the Currently Not Self-Sustaining Airports. Number of Airports in Each Category of Viability

	Status Quo	$10 AIF/PFC	$20 AIF/PFC
Not Self-Sustaining	13*	12*	7
Self-Sustaining	0	1	3*
Viable	0	0	3
Total	13	13	13
Average Fees per Enpl	$45.00	$53.50**	$62.00**

* Includes one NAS Airport

** Assumes an 85% yield from AIF/PFC – not applicable to children, etc.

The NAS airport in this group is not self-sustaining at current traffic levels even with a $10.00 AIF/PFC if ground rent is considered. Put another way, traffic will need to be higher at the time the ground rent starts if the airport is to be self-sustaining or viable.

Airports that are Self-Sustaining

There are nine airports in this group, including one NAS airport. For the eight non-NAS airports:

- All but three have an AIF/PFC in place;
- All but three have more than 50,000 annual e/d passengers;
- The average annual e/d passenger traffic is 69,654;
- Six of the eight are authority airports;
- The average cash flow is $515 per year or $.01 per enplanement;
- The average expenses per enplanement are $32.13;
- Aviation fees and charges make up 57.2% of total revenues; and
- Commercial revenues average $10.46 per enplanement.

The NAS airport in this group has a $10 AIF in place, but at current traffic levels, there is insufficient revenue to bring the airport to viability if ground rent is considered.

To evaluate the impact of AIF/PFC levels on viability, the impact of a $10 and $20 per enplanement charge was assessed as summarized in Exhibit V-4. Three are viable with a $10 fee, and six with a $20 fee.

Exhibit V-4. The Impact of AIF's/PFC on the Currently Self-Sustaining Airports. Number of Airports in Each Category of Viability

	Status Quo	$10 AIF/PFC	$20 AIF/PFC
Not Self-Sustaining	0	0	0
Self-Sustaining	9*	6*	3
Viable	0	3	6*
Total	9	9	9
Average Fees per Enpl	$20.50	$29.00**	$37.50**

* Includes one NAS Airport

** Assumes an 85% yield from AIF/PFC – not applicable to children, etc.

Airports that are Viable

There are four airports in this group. For this group:

- Three of the four are authority airports;
- All four have more than 50,000 e/d passengers – the average is 104,537 per year;
- The average cash flow is $608,450 or $5.82 per enplanement;
- The average expenses per enplanement are $15.77;
- Aviation fees and charges make up 40% of the total revenues; and
- Commercial revenue per enplanement is $4.71.

C. Financial Viability

Exhibits V-5 to V-7 graphically illustrate the comparisons between the groups of not self-sustaining, self-sustaining and viable airports. From the analysis in this Chapter, it is clear that:

- The most significant factor affecting viability is passenger traffic volume. The viable airports have, on average, over five times the traffic at the airports that are not self-sustaining, and 1.5 times the traffic at the self-sustaining airports but not viable airports. At the weakest airports, fees and charges are so substantial that each additional enplanement contributes approximately $45.00 (conversely, if traffic continues to decline each enplanement lost is $45.00 lost);

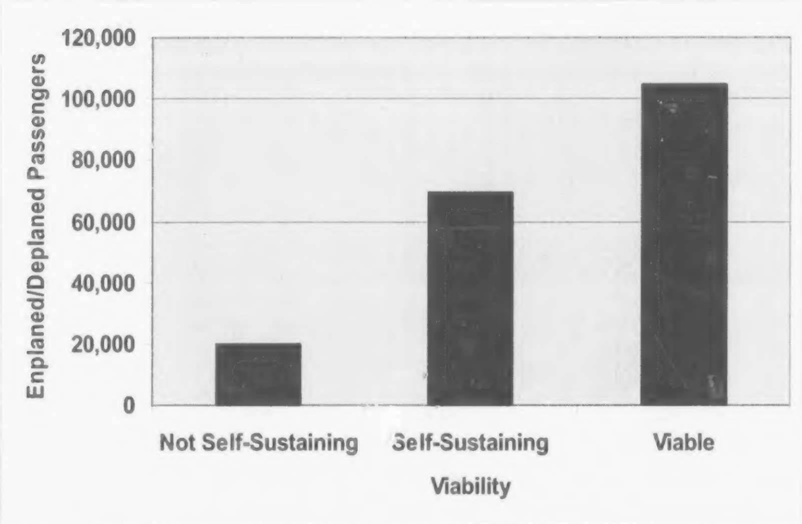

Exhibit V-5. **Degree of Viability and Enplaned/Deplaned Traffic (2000, 2001**

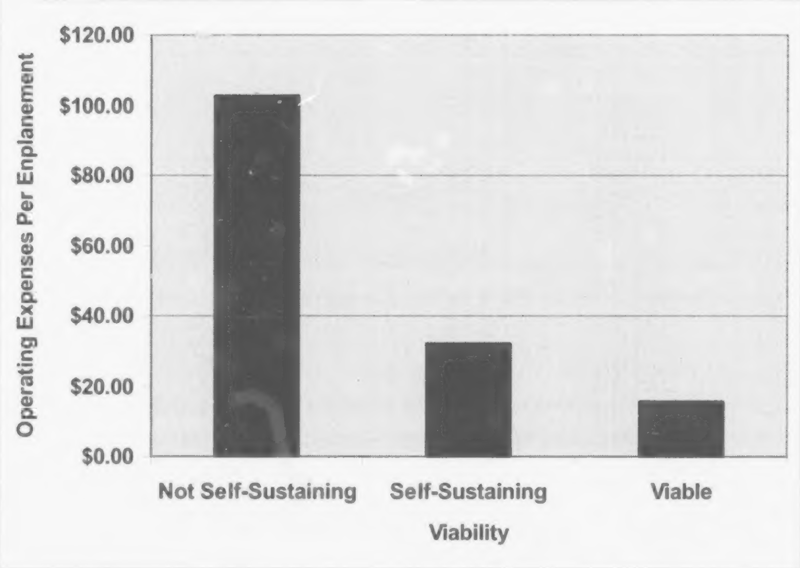

Exhibit V-6. **Degree of Viability and Operating Expenses per Enplanement**

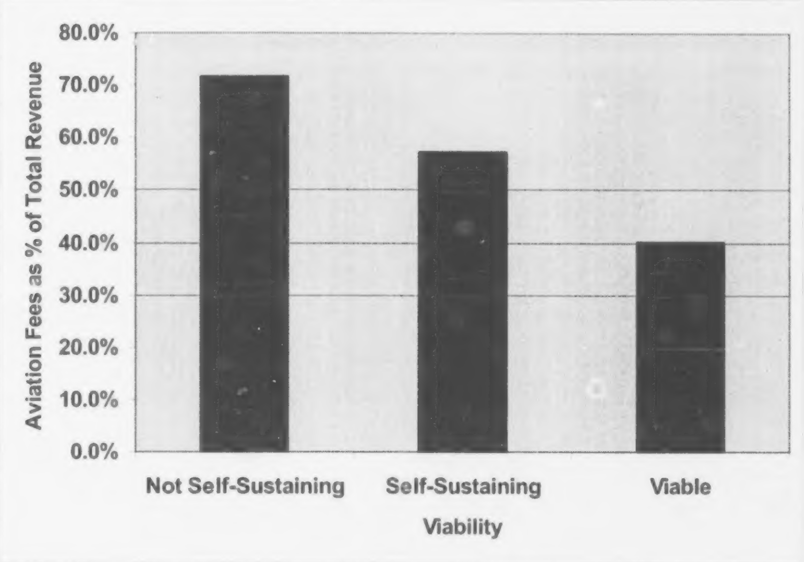

Exhibit V-7. Degree of Viability and Aviation Fees as a Percentage of Total Revenues

- The second significant factor is the magnitude of the AIF/PFC. Under the hypothesis of a uniform $20 AIF/PFC being applied to all the study airports, 13 of the 26 airports are projected to be viable at current traffic levels. At the currently not self-sustaining airports, however, this implies average per enplanement fees of $62.00 (plus the $24 security fee per round trip), making it difficult to maintain current traffic levels;
- Labour costs, which have already been reduced by 31% on average since transfer from Transport Canada, could not be reduced enough to achieve self sufficiency at the airports that are currently not self-sustaining;
- Property taxes are not a significant factor in viability on average, although at a few airports they are a substantial cost element. Several municipalities have assessed taxes on authority airports that are out of proportion to their revenue capability (as high as 17% of total airport revenue and equal to $4.40 per enplanement);
- Commercial revenues per enplanement at the not self-sustaining airports and the self-sustaining airports are higher than at the viable airports, indicating that it is not a failure to generate commercial revenues that has contributed to the lack of viability; and

- The type of governance does not appear to be a significant factor in viability. Although more authority airports are self-sustaining or viable, they also tend to be the airports with more traffic.

Commercial airports are characterized by high fixed costs and variable revenues. As passenger traffic increases, airports become more financially sound, moving from operating losses, to modest surpluses, and eventually to viability. Efficiency gains can reduce the amount of passenger traffic needed to be viable (in the 1970's, the breakeven point for Transport Canada operated airports was approximately 1 million e/d passengers). However, at some traffic level, the smaller airports cannot be viable because the revenues that can be realistically extracted from users, without destroying demand, cannot cover operating costs.

Only non-NAS airports with over 75,000 annual e/d passengers are likely to be viable as businesses

Exhibit V-8 illustrates the average traffic levels and average cash flows before grants for the three groups of airports (not self-sustaining, self-sustaining, viable). It **appears** that airports transition from not self-sustaining to self-sustaining at approximately 65,000 annual e/d passengers and achieve viability on a cash basis (for the non-NAS airports) at approximately 75,000 annual e/d passengers, assuming the continued funding of ACAP for all eligible projects.

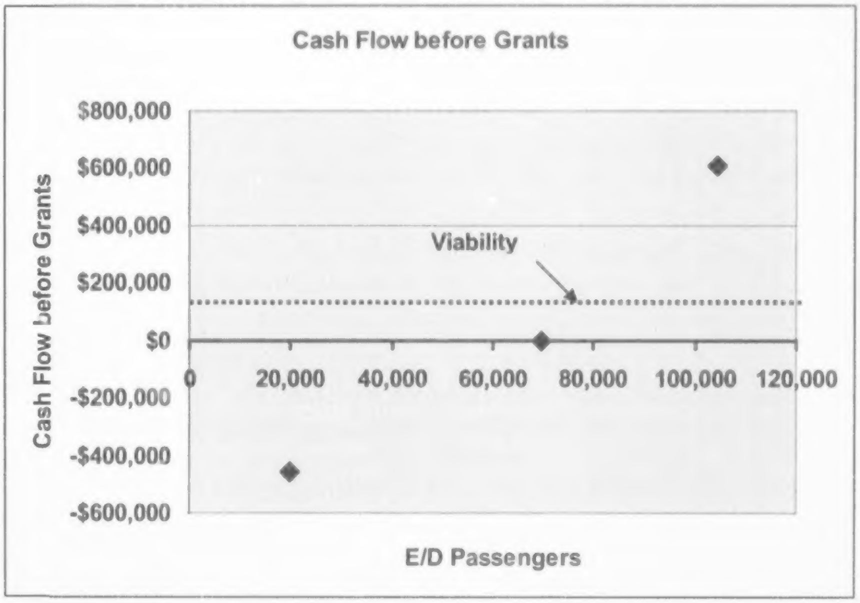

Exhibit V-8. Cash Flow Before Grants as a Function of Enplaned/Deplaned Passenger Traffic. Trend Line added.

Looking back at Exhibit II-1, we see ten airports with over 75,000 passengers, the estimated point for viability, but the viability analysis indicates that only four airports are projected to be viable:

- The four viable airports are viable with their current revenue structures;
- Four of the airports with over 75,000 e/d passengers are not viable at current revenue levels, but it is estimated that three would be viable with a $10 AIF/PFC, and the fourth with a $20.00 AIF/PFC; and
- Two of the ten airports with over 75,000 e/d passengers are NAS airports. Taking into consideration their ground rent requirements in the future, these airports are calculated to be non-viable at that time.

One optimistic perspective may be that the smaller airports will grow their way to viability over time. Unfortunately, the data do not support this hope. As Exhibit II-2 illustrated, over the 10 years from 1989 to 1999, traffic declined at most of the smaller airports.

Traffic has declined significantly for the majority of smaller airports

Looking at the mechanisms to achieve viability - increased efficiency, increased revenues and traffic growth - the ability to achieve viability for many of the smaller airports does not look promising:

- Substantial efficiency gains have already been achieved and are reflected in the current financial positions of the airports;
- Revenue growth at many of the airports has already been significant, with 11 of the 26 airports having already implemented a passenger facility charge by 2001;
- Operating budgets for the next five years prepared by the airports themselves support our independent assessment. Excluding the NAS airports, only five of the fourteen airports that provided financial forecasts predict a cash surplus in the next five years, and only two of these project annual surpluses of over $100,000; and
- Significant traffic growth appears to be unlikely for most of the smaller airports.

If these smaller airports are unlikely to grow into viability, how many of them will be viable?

- It appears that price elasticity effects have already curtailed traffic at the smaller airports over the past 10 years and the ability to increase fees in the future may be limited. At some airports, each increase in fees will tend to reduce passenger demand, leading to reduced flight frequencies which will further reduce demand levels. While each fee increase would substantially increase airport revenues at some airports, the impact of the decreased demand on the carrier would be negative to the point that, especially where airports are served by smaller 19-37 seat aircraft, a relatively small decrease in demand could lead to the route not being profitable for the carrier, and a withdrawal of service. In this case the airport gets zero revenue from the route (and less or no service to the community);

- Many of the smaller airports have been using transitional funding from Transport Canada to cover operating deficits and these funds have mostly been consumed;
- Without additional fee increases, only one half of the airports will even operate in a cash surplus position. The remaining airports will likely require ongoing external financial support to cover operating losses and capital development;
- Airports under 65,000 e/d passengers typically operate at a loss even with an AIF/PFC and will require ongoing external financial support;
- The introduction of a $10.00 AIF/PFC typically does not make the not self-sustaining airports viable, or even self-sustaining. At current traffic levels, only one of the not self-sustaining airports without an AIF/PFC becomes self-sustaining with a $10 fee, and none are viable;
- New regulations, including CAR 308, other airport safety regulations (winter maintenance, wildlife control) and security all have the potential to drive up airport costs which directly influence viability, and, by discouraging air travel, will also reduce revenues and further reduce viability; and
- The NAS airports in the study are a special case. Their future cash flows will be limited by the requirement to pay ground rents. With ground rents in place, the ability of the smaller NAS airports to borrow to finance capital development will be very limited, and will unlikely be sufficient for viability in the long term.

There are substantial variations from airport to airport, and some airports in high growth areas, or with unique opportunities for innovative revenue sources, may be viable at lower traffic levels. Other factors that influence the potential for viability include:

- The proximity of the airport to other larger airports and the presence of alternate transportation modes which may significantly increase the elasticity of demand;
- The present condition of the facilities, which influences the future need for capital investments and their phasing; and
- The impact of new security measures on the airport (direct costs and reduced revenues).

D. The Way Forward

The information collected for this study shows that most of the smaller airports have significantly reduced costs and increased revenues since devolution. Nonetheless, many of the smaller airports in Canada will continue to need external financing for operations and capital over the long term.

The transition to local operation of airports has clearly demonstrated that local operation is efficient, and that regardless of a potential need for ongoing external financial support, local operation should be the cornerstone of any future structure for airport operations.

Local operation is efficient, but ongoing external financial support will be required for many of the smaller airports

Recognizing that external financial support will be an ongoing requirement for many of the smaller airports and that there is a need to continue the transition to a business-like footing, there should be a national dialogue on external support and business enhancement.

APPENDIX A

STUDY TERMS OF REFERENCE

INTERJURISDICTIONAL STUDY OF SMALLER AIRPORTS

REQUEST FOR PROPOSALS

1. Objective

The objective of this project is to assess the future viability of smaller Canadian airports and to identify possible solutions or processes to resolve key problems. These "possible solutions" are not to be considered as "recommendations".

The consultant is to assess the viability issues pertaining to small airports in Canada based on a sampling of up to 26 small airports to be selected for inclusion in this study (Attachment 1). Case studies will be performed on each of the selected airports with the objective of achieving a balanced result, which will identify the range of major viability issues facing the airports. The consultant will be expected to carry out an on-site visit to each case study airport.

2. Background

As a result of air industry changes over the past few years, some smaller airports throughout the country have expressed concerns regarding their financial viability. Issues described below have been cited as some of the causes of these financial difficulties. Sufficient data has not been collected to support or dismiss these claims.

- Devolution of Airports by the Federal Government

  Since 1994, the federal government has been devolving airports to municipalities or local commissions or authorities. While airports were transferred with funds for infrastructure improvements and, in some cases, with transitional operating subsidies, funds are diminishing.

  A number of airports are concerned about their ability to operate and maintain their facilities. In many cases these airports continue to have operating deficits. This remains a source of great concern.

  During devolution, the federal government made it clear that any airport expansion must be self-financed. However, small airports have limited sources of financing for capital projects and especially for those in support of community economic development, such as creation of a business park, runway extension or terminal expansion.

Airports with annual passengers on scheduled services totaling at least 1000 per year over three years are eligible for the Federal Airports Capital Assistance Program (ACAP). There is no ongoing operations and maintenance assistance program.

- Impact of New Regulations

Airport operators are anxious to understand the financial implications of potential/probable new regulations with which they will need to comply. Since new operators have assumed responsibility for airports, changes - or proposed changes - in the regulatory framework for airport operations have been identified which could in some cases significantly impact operating costs.

It now appears that there will be an increasing number of intensified existing, or new regulations, which could in a number of cases cause increases in airport operational and capital expenditure requirements. Examples include CAR 308 (Airport Emergency Intervention Services), Winter Maintenance Standards, etc. This trend is expected to continue as the review of Aerodrome Standards and Recommended Practices continues over the next several years.

Although the final scope of such regulations cannot be determined at this time, the consultant is expected to provide an assessment of the potential impact of this trend, and the ability of the subject airports to absorb the effects, and to deploy their limited resources accordingly.

- Airline Mergers/Industry Restructuring

The merger of Canadian Airlines International into Air Canada and the more general changes in the air industry in recent years have impacted the number of regional service flights. Route rationalization and changes in aircraft type are affecting flight frequency, routings and route capacities, scheduling, and fares, with consequent effects on airport activity and revenues. The situation is still dynamic and the overall impacts of service changes are still to be clarified.

3. Scope

The work content shall include, but will not be limited to, the items listed below.

Through separate case studies for each of the selected airports and research and analysis the contractor will perform an in-depth study. The consultant is to identify, and address the key viability issues affecting these airports.

The analysis shall include an explanation of:

- airport character
- origin
- magnitude
- the trends - existing or likely
- the impact of certain probable cost and revenue changes, including projected costs of known regulatory initiatives
- the rigidity or flexibility of airport operating and capital cost bases
- the status and effectiveness of formal business planning procedures
- management challenges
- and estimated degree of impact of these and other identified shaping factors on airport viability on a time-scale of 5, 10, and 20 years.

Reference to geographic-specific effects will be required, in order that any major regional, or even site-specific impacts on airport viability may be detected and characterized.

While the primary purpose of this research is to identify and address the financial/business case issues confronting airports, reference is also required as to the role and importance of the airport to the region and surrounding communities in terns of sustaining the local society, economy, and industry and employment base. This is particularly important for gaining an understanding of the strategic role of regional/local airports in regions that are distant from major centres.

The study should identify and assess the current financial situation for the case study airports and determine:

- those airports that are financially vulnerable and their degree of vulnerability, the cause(s) of the financial difficulties, and the financial impact of each cause;
- those airports that are financially. viable, and factors contributing to their success;
- the cost and revenue issues which are detrimental to the financial and market viability of these airports;
- the capital spending and business expansion issues which affect the airports' viability;
- the impacts of policy and regulatory issues;

- the critical roles these airports play in the regions and communities they serve;
- the services provided in the public interest (e.g. medevac, forest fire fighting, policing, search and rescue); and
- other significant or relevant factors.

The analysis should draw conclusions as to whether or not demonstrated specific airport viability concerns axe the result of local or systemic factor.

The analysis should consider the impacts of changes occurring under the restructuring of the aviation system, including impacts resulting from:

- the National Airports Policy
- the devolution of airports,
- the airline merger,
- the cessation or introduction of services to airports,
- specific federal initiatives and regulatory changes (including projected cost impacts of known regulatory proposals), and
- other causes and impacts that may be identified.

The study should include an analysis of the benefits and limitations of ACAP, as well as an examination of the eligibility criteria for ACAP.

4. Methodology

The following should be considered as elements in the methodology:

- One on-site visit with airport operators for each case study
- Interviews, use of questionnaires;
- Previous studies and surveys, data and reports produced by relevant and credible companies,
- entities, and associations such as the Air Transport Association of Canada, Coalition of Concerned Airport Users, Canadian Airports Council, national, provincial and territorial aviation/airport operator/stakeholder associations;
- A survey and analysis of airports as performed by the Federation of Canadian Municipalities:
- Municipal, provincial, territorial, and federal governments;
- Other relevant industry, consumer, and stakeholder interests as appropriate

To assist the prospective contractor, a draft questionnaire is appended as Attachment 2. This provides an indication of the minimum, mandatory information that each detailed case study would require. While this questionnaire should cover most aspects relevant to airport viability, the consultant is encouraged to suggest variations to this questionnaire in light of his/her experience, for consideration by the Steering Committee.

The prospective contractor must be .able to perform the required tasks (interviews, requests for data, etc) in either official language as appropriate.

In the Proposal it is expected that the prospective contractor will discuss the approach to the study, the means of obtaining information, and the contractor's level of confidence in obtaining adequate responses from the selected airport operators.

It is anticipated that monthly meetings of the contractor with the Steering Committee will be conducted by teleconference.

5. Contract Deliverables

The expected deliverables from the study will include:

- Three (3) copies of a draft final report, along with an electronic copy in Microsoft Word 97 format
- Twenty-seven (27) copies of a final report (in English), plus an electronic copy in Microsoft Word 97 format which contains:
- an Executive Summary of the key findings
- a description of the methodology used
- a description of the limitations of the methodology used
- the findings of each of the case studies
- any electronic tools such as spreadsheets used in analyses.

6. Project Conduct, Schedule and Level of Effort

This study will be carried out under the direction of a steering committee comprising representatives of the federal and provincial departments of transportation.

A contract for consulting services must be established between the Contractor and the Client before work can begin. Costs incurred in preparing a proposal to undertake this work are not eligible for reimbursement. In addition, the Steering Committee reserves the right to decline any and all proposals that have been submitted in response to this request for proposals.

While subject to review by the project steering committee in considering the proposal, it is expected that the level of effort for this project will be in the order of $160,000 to $176,000 (including all applicable taxes). The deadline for completion of this work is March 15, 2002.

7. Submission of Proposal

To be considered for this project, proposals to undertake this work must be received at the address below ***no later than 1:00 PM EDT on September 28, 2001.***

The proposal must provide a strategy for successfully performing the work, including an approach to preparing and providing the deliverables. Proposals should include, under separate cover, an itemized cost proposal, estimated number of hours by individuals participating in the study, labour rates by individuals and/or labour category, and references.

Objectivity is a critical requirement of this study. Proposals should provide information on any past or current work undertaken by the firm, or by individuals included in the proposal, or on relationships with organizations or clients, which could pose a real, or perceived, conflict of interest or bias. Should such potential conflicts or biases be identified, the proposal must describe how these will be addressed through the conduct of the work to preserve objectivity or to eliminate real, or perceived, conflict of interest.

Cost will not be the sole determining factor for selection. Proposals will be evaluated by a selection panel on the basis of factors including:

- demonstrated capability to carry out the work required,
- ability to manage the work,
- the proposed methodology,
- the quality of the proposal, and
- cost

Final selection may include an interview, at the option of the selection panel.

Fourteen (14) copies of the proposal, along with an electronic copy in Microsoft Word 97 format, should be delivered to:

Transportation Secretariat,
2323 St. Laurent Blvd.,
Ottawa, Ontario, KI G 4J8
Attn: John Pearson
Tel: (613) 247-9347
Fax: (613) 736-1396
Email: jpearson@magi.com

Attachment 1 - Candidate List of Airports for Case Studies

Tentative - Subject to Confirmation

British Columbia	Prince Rupert
	Cranbrook
	Dawson Creek
	Fort St John
Alberta	Grande Prairie
	Peace River
	Jasper/Hinton
Saskatchewan	Prince Albert
	Yorkton
Manitoba	Brandon
	Flin Flon
Ontario	Sault Ste. Marie
	Kapuskasing
	Muskoka
Quebec	Val D'Or
	Rouyn-Noranda
	Gaspé
	Alma
New Brunswick	St. Leonard
	Saint John
Nova Scotia	Yarmouth
	Sydney
PEI	Charlottetown
Newfoundland	Stephenville
	Deer Lake
	Goose Bay

Attachment 2

Inter-Jurisdictional Study of Smaller Airports
Minimum Data Requirements

Tombstone Data

If an airport has an approved Master Plan, a copy may provide all or most of the following essential information.

GENERAL INFORMATION

Airport Name: ______________________________________

Location:________________ Municipality: ____________________

Owner name: ______________________________________

Is the Owner a: Municipality _____ Airport Authority _____ Other ____

Operator Name: ____________________________________

Is the Operator a: Municipality____ Airport Authority ____ Other _____

Number of airport employees ________________

Is this a former Transport Canada owned airport?

No ______ Yes ______ If yes, date of transfer _________________

Is this airport Certified? Yes ___ No ___ Registered? Yes___ No___

INDICATORS OF DEMAND:

Role and Vision of the Airport:
(as defined by Master Plan, or typical Master Plan criteria - the objective is to identify the local perception of the role, environmental scan and business aspirations of the airport)

Aircraft:

What type of service does this airport handle?	Annual aircraft movements
Scheduled d passenger	
Non-scheduled passenger	
Commercial non-passenger	
Non-commercial/recreational	
Military/State	
Other (Specify)	

- Trend analysis on aircraft movements for the last ten (10) years.

Commercial airlines serving the airport and type of equipment (by season if appropriate).

1.
2.
3.
4.

For small airports, how often per day/per week is there more than one commercial aircraft using the apron at the same time (by season)?

For larger airports,

- what are the typical peak hour aircraft movements (by season)?
- what portion of peak is commercial passenger aircraft?

Passengers:
Annual E/D passenger volume (by season)? ___________

- Trend analysis for passengers (by class if possible) for the last ten (10) years.

For small airports,

- what is typical E/D passengers per day and/or week? Commercial vs. non-commercial?
- where commercial passenger flights overlap, what is typical volume of E/D passengers? What is typical number of people (passengers, meeters and greeters, etc,) in terminal at peak periods?
- list by season if appropriate

For larger airports,

- what is typical peak hour passenger volume? Commercial vs. non-commercial?
- during the typical peal: hour, what is total number of people using terminal (as above)
- list by season if appropriate

Cargo:
Any quantitative data available; an indication of the role cargo plays at the airport.

INDICATORS OF CAPACITY

Airside:

Length and width of runway(s):
- actual
- as maintained (by season)

Runway design aircraft

Apron size: actual
- as maintained (by season)

Number of gates/parking slots for passenger aircraft

Terminal:

Size of public areas:
- actual
- as maintained (by season)

Design capacity:

Financial Data

Those items marked with an asterix are the minimum required (Information for 3 years, or more, if readily available)

*1. **Aviation user fee revenues:**

		Current	Previous
A) Landing fees	$		
B) Terminal fees	$		
C) Aircraft parking	$		
D) Other (identify key)	$		
E) Total	$		

*2. **Commercial/Retail revenue:**

		Current	Previous
A) Terminal concessions	$		
B) Land leases	$		
C) Parking	$		
D) Office Rent	$		
E) Taxi	$		
F) Other (identify key)	$		
G) Total	$		

*3. **Other Revenue:**

		Current	Previous
Airport Improvement Fee	$		
Subsidies (specify)	$		
Interest	$		
Other (identify key)	$		

*4. **Total Revenues** $

*5. Expenses

		Current	Previous
Salaries and wages	$		
Material, supplies and services	$		
Management Contract	$		
Property Taxes	$		
Amortization	$		
Interest expenses	$		
Other (identify key)	$		
Total Expenses	$		

*6. **Revenue over Expenses** $

7. Assets

		Current	Previous
Cash			
Accounts receivable			
Consumable inventories	$		
Prepaid expenses	$		
Other	$		

		Current	Previous	
Capital Asset				
Cost	$			(Per Group of Asset)
Age	#			
Amortization	$			(Per Group of Asset)
Accumulated Amortization	$			(Per Group of Asset)
Period of Amortization	#			(Per Group of Asset)
Market Value	$			(Per Group of Asset)
Residual value	$			
Replacement value	$			
Restrictions				Specify (Per Asset)
Purchases	$			(Per Group of Asset)
Disposals	$			(Per Group of Asset)

8. Current Liabilities

		Current	Previous
Account payable			
Security deposit	$		
Current portion of long-term debt	$		
Long term debt			
Explanation of debt			
Amount	$		
Interest	$		
Commencing Date			
Ending Date			

***9. Airport Improvement Fees/Other Direct Passenger Charges**

Date of implementation
Rate
Applied to What (ex: enplaned passenger)
Mode of collection Airport? Airline?
Purpose of AIF Capital project? Operating?
Alternative revenue sources considered before implementing ALF
Reason for implementing AIF

***10. Budget for the next five ears**

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues (excluding A1F1					
Expenses (excluding_AIF)					
AIF Revenues (Net					
# enplaned/deplaned pax					

***11. External Funding**

		Current	Previous
Specify type of funding			
Amount	$		
Conditions			
Rate	%		

***12. Capital Investment Plan Does the airport have an approved Master Plan?**
Does the airport have an approved Capital Investment Plan?

(up to 20 ears if available)

	Year 1	Year 2	Year 3	Year 4	Year 5
Life-cycle Maintenance Airfield (Itemize) Terminal Budding (Itemize) Groundside (Itemize)					
Expansion Airfield (Itemize) Terminal Building (Itemize) Groundside Itemize					
Revenue-Generating (Itemize)					
Cost-recovery plans:					

Governance Profile

Describe how the airport is managed:

- Reporting Relationship
- Management Structure (Board, Council, Commission, etc.)
- Membership of Governing Body
- Organisation (# Dedicated employees, services provided by others free of charge, etc.)

APPENDIX B

AIRPORT SURVEY FORM

Inter-Jurisdictional Study of Smaller Airports

Interview Guide - Data Collection Form

A. General Information

Airport Name: ____

Location: ______________________________ Municipality: ______________

Airport Manager: __________________________ Phone: (____) __________

Owner Name: ____

Is the Owner a: ☐ Municipality ☐ Airport Authority ☐ Other, specify ______________

Operator Name: ____

Is the operator a: ☐ Municipality ☐ Airport Authority ☐ Other, specify ______________

Was this airport formerly owned by Transport Canada? ☐ Yes ☐ No If yes, specify date of transfer: __________

Is this airport: Certified ☐ Yes ☐ No

Registered ☐ Yes ☐ No

Does the airport have an approved Master Plan? ☐ Yes ☐ No If yes: year completed: _____

B. Airport Activity & Demand Indicators

Types and levels of air service handled at the airport:

Type	Current (Yes/No)	Annual Aircraft Movements		
		2001 Est.	2000	1999
Scheduled passenger	Y / N			
Non-scheduled passenger	Y / N			
Commercial non-passenger	Y / N			
Non-commercial / recreational	Y / N			
Military/State	Y / N			
Other (specify)	Y / N			

Note - Movements between 1990 and 1998 to be obtained from Statistics Canada

List the commercial airlines serving the airport and the type of service and equipment:

	Airline	Sched. Service	Aircraft types (if seasonal specify season S=summer, W=winter, etc if typically less than 1 flight per week indicate with a *)
1.	____________	Y/N	____________
2.	____________	Y/N	____________
3.	____________	Y/N	____________
4.	____________	Y/N	____________
5.	____________	Y/N	____________
6.	____________	Y/N	____________
7.	____________	Y/N	____________
8.	____________	Y/N	____________

Peak Aircraft Movements

Typically, how many hours on the busiest day of the week day are there more than one commercial aircraft using the apron at the same time, and does this vary by season:

#__________ **OR** Summer #: __________ Winter #: ____________

Are there ever more than 2 commercial aircraft using the apron at the same time? ☐ Yes ☐ No

If yes, what are the **typical peak hour** movements by season and peak hour commercial movements?

Season	All movements	Commercial Movements (or % of total)
Summer	____________	______________
Fall	____________	______________
Winter	____________	______________
Spring	____________	______________

Annual E/D passenger traffic: Specify #s for latest 12 months available (indicate year also)

January	20__	____________	July	20__	____________
February	20__	____________	August	20__	____________
March	20__	____________	September	20__	____________
April	20__	____________	October	20__	____________
May	20__	____________	November	20__	____________
June	20__	____________	December	20__	____________

Estimate for 2001 annual	__________	Sched: __________	Non-sched: __________
Actual 2000 annual	__________	Sched: __________	Non-sched: __________
Actual 1999 annual	__________	Sched: __________	Non-sched: __________

% of connecting passengers: __________

How obtained: ☐ Survey ☐ Airlines ☐ Best guess ☐ Other: ___________

Peak Periods (*give for summer & winter if they differ*)	Summer	Winter
What is the typical peak hour passenger volume?	__________	__________
What proportion of these passengers are on non-scheduled flights?	________%	________%
What is the typical number of people (passengers, meters and greeters, etc.) in the terminal at peak times?	__________	__________

Cargo

What is the annual tonnage of cargo handled at the airport? ____________ tonnes

What is included: ☐ Enplaned ☐ Carried in Pax aircraft
☐ Deplaned ☐ Carried in cargo only aircraft

Roughly, how much of the cargo tonnage (% of t) is excluded?__________________________

What types of cargo, and how important is the cargo to the community:____________________

____

Are there any dedicated cargo and combi cargo-passenger services? ☐ Yes ☐ No
If yes, aircraft types and # flights per week: ____

Public Interest Air Services at Airport

Which of the following public interest services are provided from the airport, and approximately how many flights per year:

Medical evacuations	☐ Yes	☐ No	__________ per yr
Forest firefighting	☐ Yes	☐ No	__________ per yr
Search and Rescue	☐ Yes	☐ No	__________ per yr
Policing	☐ Yes	☐ No	__________ per yr
Medical (eg organs for transplant)	☐ Yes	☐ No	__________ per yr
Other: ______________	☐ Yes	☐ No	__________ per yr

C. Indicators of Capacity

Airside

	Actual	As maintained			Change since 1990
		Summer	Winter	Unit	How changed & Date
Runway # ______					
Length of runway	________	________	________	____	____________________
Width of runway	________	________	________	____	____________________
Size of apron	________	________	________	____	____________________
Taxiways	________	________	________	____	____________________

Runway design aircraft: ____________________

Runway # ______

Length of runway	________	________	________	____	____________________
Width of runway	________	________	________	____	____________________
Size of apron	________	________	________	____	____________________
Taxiways	________	________	________	____	____________________

Runway design aircraft: ____________________

Number of gates/parking slots for passenger aircraft: ___________

Terminal

		Size	Unit	Change since 1990 How changed & Date
Size of public areas:	Actual	____________	___	______________________________
As maintained	Winter	____________	___	______________________________
	Summer	____________	___	______________________________

Jet Bridges

		Number	Change since 1990 How changed & Date
Number of jet bridges:	Actual	____________	______________________________
As maintained	Winter	____________	______________________________
	Summer	____________	______________________________

D. Condition of Facilities Owned by Airport

Poor Fair Good Excellent

Runways: Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

Taxiways: Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

Apron: Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

Terminal: Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

Perimeter fence: Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

Other buildings (garage, fire hall, etc.), specify:

_______________ Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

_______________ Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

_______________ Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

Vehicles/equipment: Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

Roads/parking area: Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

Other:

_______________ Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

_______________ Rating 1 2 3 4 5 6 7 8 9 10 Age: _______

Comment: ____

____

E. Recent Airport Capital Outlays

Capital Items	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Runway/taxiway											
Apron											
Terminal											
Other buildings											
Vehicles/equip.											
Roads/parking											
Other__________											

Applications for ACAP funding since 1996:

Date	For what - describe	Amount	Pending/ Rejected/ Approved	Year Received
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		
		$		

Comments on experience with ACAP: ______________________________

Have you completed any studies of projects which are eligible for ACAP funding for which ACAP funding has not yet been applied for or is still pending?

☐ Yes ☐ No If yes, could we have a copy?

Has the rehabilitation of facilities been delayed due to insufficient funds?

F. Financial Data

	Fiscal year ending month of _______					Last 3 yrs under TC		
	2001	2000	1999	1998	1997			
Aviation user fee revenues*								
Landing fees	$							
Terminal fees	$							
Aircraft parking	$							
Other:	$							
(id key)	$							
	$							
Total aviation user fees	$							

Commercial/Retail revenues*

Terminal concessions/leases	$							
Land leases	$							
Parking (vehicles)	$							
Office rent	$							
Taxi	$							
Other (id key) ______	$							
______	$							
______	$							
______	$							
Total commercial/retail	$							

Other Revenues*

Airport Improvement Fee	$							
Subsidies & Grants	$							
Interest	$							
Sales of Assets	$							
Other (id key) ______	$							
______	$							
______	$							
______	$							
Total other	$							
Total Revenues*	$							

	Fiscal year ending month of ______ 2001	2000	1999	1998	1997	Last 3 yrs under TC ______	______	______
Expenses*								
Salaries & wages	$							
Benefits, allowances, etc	$							
Training	$							
Materials, parts, supplies & repairs	$							
Facility management contracts	$							
Professional services	$							
Property taxes	$							
Utilities/fuel	$							
Depreciation/Amortization	$							

	Fiscal year ending month of ______					Last 3 yrs under TC		
	2001	2000	1999	1998	1997	______	______	______
Insurance	$							
Travel	$							
Marketing & Public relations	$							
Interest expenses	$							
Other ______	$							
(id key) ______	$							
______	$							
______	$							
Miscellaneous	$							
Total Expenses*	$							
Revenues over Expenses*	$							
Assets								
Property, plant & equipment	$							
Cash	$							
Accounts receivable	$							
Consumable inventories	$							
Prepaid expenses	$							
Other ______	$							
Total Assets	$							
Current Liabilities								
Accounts payable (incl. taxes)	$							
Deferred revenues	$							
Security deposit	$							
Current portion of long term debt	$							
Long term debt - Amount	$							
Interest rate	%							

Explanation of long term debt: ______

Commencement date ______

End date ______

Other: ______________________ ...$______ ______ ______ ______ ______ ______ ______ ______

______________________ ...$______ ______ ______ ______ ______ ______ ______ ______

Accounting of Capital Assets

a) Latest Available – Year: __________

Asset Group	Runway	Apron	Terminal	Vehs/Equip	Other
Cost (initial) .... $					
Age .... #					
Depreciation .... $/yr					
Accum. depreciation . $					
Market value .... $					
Residual value .... $					
Replacement value ... $					
Purchases .... $					
Disposals/sales .... $					
Depreciation method*	__SL / DB_	__SL / DB_	__SL / DB_	__SL / DB_	__SL / DB_
Depreciation rate....... %					

** Depreciation: SL=Straight Line, DB=Declining Balance*

Restrictions, specify for each asset: ____

____

____

____

b) 1998 (or 1997 or 1999, circle applicable)

Asset Group	Runway	Apron	Terminal	Vehs/Equip	Other
Cost (initial) .... $					
Age .... #					
Depreciation .... $/yr					
Accum. depreciation . $					
Market value .... $					
Residual value .... $					
Replacement value ... $					
Purchases .... $					
Disposals/sales .... $					

Restrictions, specify for each asset: ____________________

____

____

____

c) Last Year TC Owned Airport – Year: __________

Asset Group		Runway	Apron	Terminal	Vehs/Equip	Other
Cost (initial)	$					
Age	#					
Depreciation	$/yr					
Accum. depreciation	$					
Market value	$					
Residual value	$					
Replacement value	$					
Purchases	$					
Disposals/sales	$					
Depreciation method*		__SL / DB_	__SL / DB_	__SL / DB_	__SL / DB_	__SL / DB_
Depreciation rate	%					

* *Depreciation: SL=Straight Line, DB=Declining Balance*

Restrictions, specify for each asset: ____________________

____

____

____

Land

Area of airport land: __________ acres **or** __________ hectares

Purchase price of land: $______________

Current market value of land: $____________

Has any land been sold since airport was transferred from TC? ☐ Yes ☐ No

If yes, how much and what was the net revenue from the sale?

____

G. Airport Improvement Fee (AIF) or Other Direct Passenger Charges

Date of implementation: ____________

Rate: $____________

If rate has changed, give previous rates and dates of changes: ____________

Applied to what: ☐ Enplaned pax ☐ Other, specify: ____________

Exemptions from this fee: ☐ Connecting pax ☐ Children ☐ Other, ____________

What % of E/D passengers is exempted (or what is average fee per E/D pax)? ____________

Mode of collection ☐ Airport ☐ Airline

Purpose of AIF ☐ Capital projects ☐ Operating costs

Alternative revenues sources considered before implementing AIF?

____

____

Reason for implementing AIF:

____

____

H. Budget for Next Five Years

	Year 1	Year 2	Year 3	Year 4	Year 5
Year					
Revenues (excluding AIF).. $					
Expenses excluding AIF .... $					
AIF Revenues (Net) .... $					
Forecast E/D passengers .. #					

I. External Funding (excluding ACAP)

Specify source & type of funding (if a loan, give interest rate)	2001	2000	1999	1998	1997	Last 3 yrs under TC		
1.	$							
	Rate %							

Conditions: ____________

2. ______________________ $ _____ _____ _____ _____ _____ _____ _____ _____
______________________ Rate %_____ _____ _____ _____ _____ _____ _____ _____
Conditions: ____

3. ______________________ $ _____ _____ _____ _____ _____ _____ _____ _____
______________________ Rate %_____ _____ _____ _____ _____ _____ _____ _____
Conditions: ____

4. ______________________ $ _____ _____ _____ _____ _____ _____ _____ _____
______________________ Rate %_____ _____ _____ _____ _____ _____ _____ _____
Conditions: ____

5. ______________________ $ _____ _____ _____ _____ _____ _____ _____ _____
______________________ Rate %_____ _____ _____ _____ _____ _____ _____ _____
Conditions: ____

J. Capital Investment Plan

Does the airport have an approved capital investment plan? ☐ Yes ☐ No If yes, year:______

Please summarize the planned capital expenditures for planned projects and whether the project will be eligible for ACAP funding and the % of the cost expected to be funded by ACAP.

	Year 1	Year 2	Year 3	Year 4	Year 5	Yrs 6-10	Yrs 11-20	ACAP? %
Life-cycle Maintenance Itemize for each airfield, terminal & groundside project	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
Expansion Itemize for each airfield, terminal & groundside project	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
Revenue Generating - Itemize for each	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %
	$							Y/N %

Cost recovery/cost sharing plans

K. Airport Organization

What is the role and vision of the airport?
(as defined by Master Plan, or typical Master Plan criteria, the object being to identify the local perception of the role, environmental scan and business aspirations of the airport)

Governance Profile

How is the airport managed? ____________________

What is the reporting relationship? ____________________
(attach chart if available)

What is the management structure: ☐ Board ☐ Council ☐ Commission ☐ Other, specify: ____________

What is the membership of the governing body and how was it appointed?

Organization

Number of employees (dedicated to airport activities)

Current	Full-time: ______	Part-time: ______	Total: ______	
1998	Full-time: ______	Part-time: ______	Total: ______	
Under TC	Full-time: ______	Part-time: ______	Total: ______	in year: ______

What services are being provided to the airport by the municipality that are not identified in the financial statement? What would be the cost if the airport provided these services? Were they provided by the municipality when TC owned the airport? (eg, marketing, training, garbage collection, snow removal, etc.)

Type of service	Value $	Under TC
	$	Y/ N
	$	Y/ N
	$	Y/ N
	$	Y/ N

What management challenges are facing the airport and how has the financial position affected these (e.g., training and retention of skilled staff, etc.)

L. Services Provided

Hours of Operation

Current hours: ______ am to ________pm

Have these changed since 1990? ☐ Yes ☐ No

If yes, specify previous hours and date of change:
______ am to ________pm changed ______________
______ am to ________pm changed ______________
______ am to ________pm changed ______________
______ am to ________pm changed ______________

If hours of operation reduced, were they reduced to lower operating costs? ☐ Yes ☐ No

Comment: ____

Emergency Responses Services (ERS)

Has ERS has been provided by the airport in any year since 1990? ☐ Yes ☐ No

If yes, indicate level(s) of ERS provided and dates of any changes in levels:

____

Is airport required to provide Emergency Intervention Services under CAR 308?

☐ Yes ☐ No

If yes, at what level: ______________ ,

If yes & at Level B, will firefighting vehicles be kept and maintained:

☐ Onsite ☐ At community firefighting service

What do you expect the additional cost of providing emergency intervention services at your airport:
Initial: $__________
Ongoing: __________ per yr

When the current management took over the airport from TC, was it their understanding that being a "non-designated airport", they would be able to choose the appropriate level of emergency response services at the airport given the risks and its financial position?

☐ Yes ☐ No ☐ Don't know

Comment: ____

Have you applied, or do you plan to apply, for ACAP to cover initial costs ☐ Yes ☐ No

Security

Recent changes in security may affect your costs and revenues. Please indicate what you expect the increased costs or reduced revenues to be:

Short term - Capital Costs: $__________ Do you expect to get ACAP funding? ☐ Yes ☐ No

Operational Costs $__________ Revenues losses $__________

Longer term - Operational Costs $__________/yr Revenues losses $__________/yr

Other Services Provided

Please list other services provided and indicate if they have been reduced to reduce operating costs, and to what extent, and if service is contracted out:

Service	Reduced (Y/N)	Contracted Out (Y/N)	How reduced?
Airside runway winter maintenance	____	___	______________________
Grass cutting	____	___	______________________
Information booth	____	___	______________________
Rwy condition reports, friction measurement	____	___	______________________
Groundside snow clearing	____	___	______________________
Terminal janitorial services	____	___	______________________
....	____	___	______________________
....	____	___	______________________
....	____	___	______________________
....	____	___	______________________

Is runway friction currently measured and CRFI reported at your airport? ☐ Yes ☐ No

M. Economic Impact

Employment at the Airport - # of full-time equivalent positions

Airport	________	Stores/restaurants	________	FBO	________
Airlines	________	Aircraft maintenance	________	Security	________
Flight training	________	Other	________		

Road distance to nearest airport with: Regional turboprop or jet service? __________ km

Transborder or international flights? __________ km

What % of passengers are: Travelling on business __________% *(both residents & visitors)*
From outside region (not local residents) __________%
Tourists from outside region __________%
(Note - %s do not add to 100%) Coming to school/college/university __________%

What is the average amount spent by each visiting passenger during their stay in your city/region? $___________

What are the major economic industries in your region? ________________________________
____

How critical is reliable, frequent air service to these industries?__________________________
____

N. Perspectives on Long Term Outlook

What will be the long term effect of the continuation of the current airport financial environment?
____
____
____
____

Is the airport financially vulnerable?
____
____
____

APPENDIX C

LIST OF GOVERNMENT AND STAKEHOLDER INTERVIEWS

Provincial Governments

Nova Scotia Dept. of Transportation and Public Works, Charles Mackenzie, Policy Advisor, Tel: 902-424-6727

New Brunswick Dept. of Transportation, Margaret Grant-McGivney, Mgr. Passenger Services, Transportation Policy Branch, Tel: 506-453-2802

Ministère des transports du Québec, Jean Gagnon - Analyste en transport, service du transport maritime et aérien, Tel: 418-643-3566

PEI Department of Transportation and Public Works, Cathy Worth, Planning Engineer, Tel: 902-894-0271

Saskatchewan Highways and Transportation, Ralph Paragg, Policy - Northern Access, Air and Safety, Tel: 306-787-8335

BC Transportation Financing Authority, David Bachynski, Manager, Grant Programs, Tel: 250-387-4569

BC Ministry of Transportation, Nicholas Vincent, Senior Transportation Advisor, Corporate Policy and Planning Branch, Tel: 250-953-3068

Alberta Transportation, Peter Dawes, Senior Policy Advisor Policy and Economic Analysis Branch, Tel: 780-415-0687

Manitoba Transportation and Gov't. Services, Gordon E. Tufts, Transportation Policy Consultant Transportation Policy Division, Tel: 204-945-1557

Ontario Ministry of Transportation, Paul V. Steckham, Senior Policy Advisor, Aviation Transportation Policy Branch, Tel: 416-235-4930

NFLD Dept. of Public Works Services and Transportation, Douglas M. Shea, Transportation Policy Analyst, Tel: 709-729-3637

Ontario Northern Transportation Office, Louis Richard, Tel: 807-473-2081

Federal Government (Transport Canada)

National Office, TC Airport Programs and Divestiture, David Bell, DG, Tel: 613-993-4465

Atlantic Region, TC Programs and Divestiture, Reg Dingley, Regional Manager

Ontario Region, TC Programs, Eric Larson, Regional Manager, Divestiture and Property Programs, Tel: 416-952-0487

Quebec Region, TC Programs and Divestiture, Daniel Bleau, Regional Manager, Airport Operations, Tel: 514-633-3100

Prairie and Northern Region, TC, David W. Murray, RDG, Tel: 204-984-8105

Associations

ATAC, Warren Everson, Tel: 613-233-7724

Atlantic Canada Airports Association, Gerry Gallant, Executive Director, Tel: 902-566-1701

Alberta Airport Operators Association, Brian Grant, President, Tel: 780-539-5270

Alberta Aviation Council, Ken Beleshko, Executive Director, Tel: 780-414-6191

Airport Management Conference of Ontario, Dave Dayment, President, Tel: 905-477-8100

Airports Committee of the BC Aviation Council, Curtis Grad, 604-855-1001

Manitoba Aviation Council, Fred Petrie, 204-231-2900

CAC, Neil Raynor, Executive Director, 613-560-8302

Other Stakeholders

Atlantic Canada Opportunities Agency, Mark Gourley, Sr. Policy Analyst, Tel: 506-851-6078

Western Economic Diversification Canada, Jim Saunderson, Director of Programs (Edmonton), Tel: 780-495-4301

APPENDIX D

ACAP CRITERIA

ACAP CRITERIA

Purpose

To assist eligible applicants in financing capital projects related to safety, asset protection and operating cost reduction.

Eligible Applicants

- to the owner of an eligible airport or its operator (if so designated by the owner and a long-term contractual relationship is in place);
- airports required by regulation to provide Aircraft Emergency Intervention Services, and other entities providing approved services at such airports, for eligible projects related to the provision of these services.

Eligible Airports

Airports with year-round regularly scheduled passenger service which are not owned or operated by the Federal Government and which meet the requirements of the Canadian Aviation Regulations, Part III, Subpart 2, Airports (TP312 "Aerodrome Standards and Recommended Practices") with respect to certification[1].

In the case of an airport designated as a "Remote Airport" under the terms and conditions of the National Airports Policy (issued July 13, 1994), as well as airports required by regulation to provide Aircraft Emergency Intervention Services, the eligibility requirement to receive regularly scheduled passenger service does not apply.

An airport shall be deemed to be served by scheduled passenger service if in each year of the most recent three calendar- year period an airport handled annually a minimum of 1,000 regularly scheduled commercial passengers as reflected in Statistics Canada official passenger statistics. In the absence of official Statistics Canada passenger statistics, the airport owner/operator will be required to complete a statutory declaration.

---

[1] A registered aerodrome will be considered as being eligible provided that it is reasonably close to certification, and the proposed project will bring it up to certification. Eligibility will be assessed by Transport Canada on an individual basis.

Types of Contributions Available

Eligible Projects

Contributions will be considered for the following types of projects in descending order of priority:

lst Priority: Safety-related airside projects[2] such as rehabilitation of runways, taxiways, aprons, associated lighting, visual aids, utilities to service eligible items, related site preparation costs including directly associated environmental costs, and aircraft firefighting specialized vehicles which are necessary to maintain the airport's level of protection as required by regulation.

2nd Priority: Heavy airside mobile equipment (safety related) such as runway snowblowers, runway snowplows, runway sweepers, spreaders, winter friction testing devices.

3rd Priority: Air terminal building/groundside safety related - such as sprinkler systems, asbestos removal.

4th Priority: Asset protection/refurbishing/re-lifing or operating cost reduction - air terminal building, groundside access.

Ineligible Projects

Contributions cannot be provided for the following projects:

- purchase of structures or land;
- feasibility, planning or zoning studies; or
- projects which have already been physically initiated or completed.

Evaluation Criteria

The Project must:

1. be essential to maintain or improve safety, protect the asset or significantly reduce operating costs;
2. meet accepted engineering practices; and

---

[2] Only airside safety-related projects required to accommodate the aircraft providing the year-round regularly scheduled passenger service will be funded. Any additional requirements will be the responsibility of the recipient.

3. be justified on the basis of current demand. Projects which result in an expansion of the facilities will only be considered where it is demonstrated that the current facilities negatively impact safety.

The Applicant must demonstrate financial need, i.e. inability of the airport to self-finance the project, and will be required to provide audited financial statements for the airport for the past three years.[3]

Funding

Priority for funding will be established by Transport Canada on the basis of:

- category of the eligible project (i.e. priority 1, 2, 3 or 4 as outlined above);
- technical analysis (facility condition, asset maintenance history and proposed future maintenance schedule);
- airport traffic (year-round scheduled service, aircraft and passenger);
- airport certification requirements, and
- industry advice.

Cost Sharing Formula

For eligible projects of the 1st, 2nd and 3rd priorities, the Applicant will be required to Contribute towards the project according to the following table, subject to the level of airport activity, based on the average of the statistics (identified by Statistics Canada or by statutory declaration) for the most recent three calendar-year period:

Scheduled Commercial Passengers	%
greater than 150,000	15%
100,000 - 149,999	10%
50,000 - 99,999	5%
less than 49,999	0%

For projects of the 2nd priority:

- the cost sharing is the same as Priority 1 except that when the equipment is not totally dedicated to airport use, the federal share will be reduced proportionately.

---

[3] The audited statements may extend to more than the airport where the applicant has other operations.

- Equipment salvage value will be deducted from the equipment cost prior to applying the cost share formula.

For eligible projects of the 4th priority, the Applicant will be required to contribute 50% towards the cost of the project regardless of the level of scheduled passenger traffic.

The Contribution Agreement

A Contribution Agreement must be executed by both Transport Canada and the Recipient before any work can commence on the project. Any work started before the Agreement has been fully executed will not be eligible for reimbursement. A project cannot be funded until the start of the fiscal year in which the project will be undertaken.

The approved contribution amount is the maximum funding that will be provided. The actual reimbursed amount may be less; only expenditures as agreed to and substantiated will be reimbursed.

Recipients will be required to complete a Conflict of Interest and Post-Employment Code for Former Public Office Holders questionnaire (Annex B).

The Recipient must ensure that any person lobbying on its behalf is registered pursuant to the Lobbyist Registration Act.

If the contribution is $1,000,000 or greater, the Recipient will be required to continue operating the airport to aerodrome certification standards for a period of ten years following the date of execution of the Contribution Agreement or repay the contribution. In the event the contribution is for less than $1,000,000, the period of operating obligation will be determined by Transport Canada.

The Recipient must declare any and all sources of funding for the project at the time the agreement is negotiated as well as upon completion of the project. Specific limits to funding assistance under this Program may be considered should a Recipient receive funding from other levels of government, including other federal sources, for the proposed project.

Transport Canada shall have the right of access, information and audit to determine compliance with the terms and conditions of the contribution agreement.

Applicants/Recipients are advised to review the contribution agreement carefully.

APPENDIX E

STAKEHOLDER PERSPECTIVES

STAKEHOLDER PERSPECTIVES

A. Introduction

In addition to collecting data from the 26 study airports, Sypher conducted telephone interviews with representatives from the following government and stakeholder groups to gain insights into the issues affecting the airports and to identify possible solutions:

- Provincial transportation departments and ministries;
- Transport Canada officials involved in airport programs at headquarters and in the regions;
- Airport and aviation councils and associations; and
- Other stakeholders - Atlantic Canada Opportunities Agencies and the Western Economic Diversification Canada

The interviews were directed at questions dealing with:

- Key issues facing smaller airports;
- The role of municipal and provincial governments;
- The role of the federal government;
- ACAP funding; and
- Social and economic impacts of smaller airports.

A list of those interviewed is provided in Appendix C.

a. Airport Managers

Airport managers are concerned for the future:

- When federal transitional grant funds run out, other sources of support will be needed.
- Although many of the smaller airports are not growing, managers know that financing expansion would be difficult.
- Changes to the federal regulatory environment not only increase costs, but create uncertainty about future operating expenses. The smaller airports report have difficulty understanding why practices that were deemed to be safe under Transport Canada operation require new more stringent regulation when the Federal government is no longer the operator.

b. Provincial Governments

Key Issues Facing Smaller Airports

Key issues that could have an impact on financial viability identified by most provinces (6-9 of the 10 provinces) were related to:

- New regulations (e.g., CARs 308, winter maintenance, bird and wildlife control, security);
- Airline restructuring (e.g., loss of Canada 3000, loss of air services, smaller aircraft); and
- Airports with a small population base and/or too many airports (competing) in an area.

It was suggested that regulations should be flexible (scalable) to take into account the financial means, level of security and risk levels at smaller airports.

Airports should be considered as a system

Six of the provinces indicated that airports should be considered as part of an overall system (e.g., important feeders to hub airports, part of the overall security system). Several provinces stated very clearly that the airport **system** should be financially self-sufficient and that smaller airports should not have to be subsidized by local tax payers. In related comments, two provinces noted that rental revenues from NAP airports are substantially higher than payments through ACAP to smaller airports.

One province stated that ongoing subsidies are an anomaly today in transportation, and that any future capital, let alone operating subsidies should be considered only after all other means of achieving viability have been exhausted.

Three of the smaller provinces (geographic or population) felt high fares were decreasing demand.

The end of transitional funding may bring additional difficulties

Several provinces were concerned that Transport Canada's transitional funds were running out and that this could be a problem. In one province, the provincial government cut back their own programs when the federal government started to divest airports.

Several provinces were concerned that the $24 security surcharge would seriously reduce regional air services and therefore would hurt regional airlines and smaller airports. This surcharge was announced during the interviews, so not all provinces were in a position to comment.

A number of the provinces reminded the interviewers that the intent of the study was to determine what the real issues were during the airport surveys and subsequent analysis.

ACAP Funding

Most provinces indicated that their airports were receiving the necessary funds that they had applied for.

Seven of the provinces made comments that ACAP eligibility was limited and/or should be expanded (e.g., include operational subsidies, ATB expansions, air movements, non-scheduled airports, tree clearance off airport property, non-scheduled airports with other commercial operations such as charters, medevac, forest fighting).

ACAP eligibility should be expanded

Over half the provinces indicted that there was not enough money in ACAP (either currently or in the future) or that it was being diluted within the existing eligibility criteria.

Several of the provinces felt that the ACAP application process and administration, once the application was approved, were too onerous.

Role of the Federal Government

Other than comments regarding ACAP, comments started to emerge that the federal government should be responsible for security at airports and/or should pay for it.

Security should be federally funded

Role of Municipalities

About half the provinces indicated that municipalities had little or no involvement, while the other half said that municipalities were actively involved with the airport (e.g., own/operated, active on board, part of economic development activities). One province indicated that municipalities should provide tax revenues to smaller airports while another province stated that municipalities should not provide subsidies.

Role of Provincial Governments

All provinces provide policy and regulatory support. Half the provinces have programs for community, northern or remote airports not covered by ACAP, usually for capital funds (at much lower levels of funding than ACAP). BC and Alberta have recently reduced aviation fuel taxes. New Brunswick has eliminated the provincial property tax for airports. One province provided technical assistance and/or co-financing for training, environmental impact assessments prior to custody transfer, and the preparation of business plans for airport transfers. One province indicated that they might have to become more involved in airports that had been transferred from the federal government.

Role of Other Organizations

Several respondents felt that CAC did not, or could not, represent smaller airports.

Economic/Social Impacts

Respondents included tourism, trade, the resource industry, agriculture and Medevac as important economic and social impacts of smaller airports.

c. Associations

Sypher interviewed four regional/provincial associations, ATAC and CAC. Their comments were more diverse than those of provincial government representatives.

Key Issues Facing Smaller Airports

The associations and councils most frequently mentioned new regulations as a key issue. Three associations/councils expressed concerns about security fees.

Two associations/councils felt that some airports had too small a population base, and that airports should operate in a business like manner (e.g., be efficient and market driven). Two respondents indicated that provincial governments had reduced or eliminated their support of small airports.

Other comments were associated with:

- The impact of airline restructuring;
- Inadequate training/education;
- Lack of funding;
- Loss of US corporate travel after September 11th;
- The need for major capital replacement; and

- Ground rent revenues from the larger airports should be used to support smaller airports.

ACAP Funding

Regarding ACAP, one or two associations/councils made comments related to:

- Not enough funding;
- Limited eligibility;
- Too onerous application and/or monitoring;
- Rental revenues from NAP higher than returns to ACAP;
- ACAP was inconsistent with the devolution policy of the federal government whereby the federal government was supposed to get out of airports;
- ACAP should not provide an operating subsidy;
- ACAP appears equitable; and
- ACAP was not achieving a sustainable system.

Role of the Federal Government

One or several associations made observations that the federal government should have rationalized airports, the airports should not have been devolved, and the federal government should support security at smaller airports.

Role of Municipalities and Provincial Government

Several of respondents reinforced that the role of municipalities varies across the country. Two regional/provincial organizations were concerned that there was an uneven playing field regarding the imposition of property taxes.

The respondents had a wide range of single comments regarding provincial governments including:

- They should provide policy and regulatory support;
- They should return fuel tax revenues to smaller airports;
- They don't have the same resources as the federal government;
- Provinces should be involved in consolidation of airports;
- Province should provide tax relief; and

- Province is reluctant in getting involved.

Role of Other Organizations

Several respondents felt that national organizations were not, or could not, represent smaller airports. The associations saw their role as lobbying, training, and networking/exchanging information. One association indicated that part of their role was finding funding. One association expressed concern that smaller airports couldn't afford to join councils or associations.

Economic/Social Impacts

Respondents included tourism, trade, resource industry, police, corporate clients and Medevac as important economic and social impacts of smaller airports.

d. Federal Government Representatives

The following responses are based on interviews with Transport Canada representatives from headquarters and three regions.

Key Issues Facing Smaller Airports

Transport Canada was not sure to what extent there is a financial issue. Airports have not reported financial difficulties to Transport Canada. There has only been anecdotal information regarding two airports in the Atlantic (a few provinces report having provided financial information on these airports to Transport Canada). This study should determine what the issues are.

Some respondents felt that many forces were beyond the control of the airport (e.g., volatility in the market, passenger price sensitivity, and the fall out of 9/11).

Respondents identified CAR 308 as a potential impact, but indicated that the regulations were under review and would allow two years for implementation. Winter maintenance and increased security measures were also identified as regulatory measures that could have an impact on smaller airports.

Role of Municipal Governments

The purpose of the National Airports Policy was to have communities become the owners and operators of airports after the federal government had decided to get out of that business. Views and involvement of municipalities varies across the country and within provinces.

Role of the Federal Government

The federal government stepped in as the industry's last-stop insurance agent when insurance companies gave their seven days notice after 9/11. Transport Canada's role regarding security is in evolution. Transport Canada and airports will have to adapt to evolving international policies and relationships.

ACAP Funding

ACAP funding was originally set at $35 million annually for 5 years back in 1995. Treasury Board in 2000 approved an envelope of $190 million for another 5 years, with flexibility to manage annual cash ceilings. If the demand is there, Transport Canada could spend $190 million before the end of the program and go back to Treasury Board earlier than planned. ACAP has always focused on airside safety to help ensure that the airports can obtain their operating certificates.

ACAP applications are reviewed using technical criteria in the regions and recommendations are made to headquarters for approval. A priority list of projects is established that best meets the criteria for the program.

Other Organizations

These organizations can represent airports at the national level, find solutions for common problems, facilitate networking, information exchange and possibly provide bulk procurement. Provincial organizations can represent smaller airports. The smaller airport associations should get together to provide a national voice.

e. Other Stakeholders

Sypher interviewed Western Economic Diversification Canada and Atlantic Canada Opportunities Agency (ACOA). These organizations described their mandates which focus on economic development, not specifically airports. They provide advisory services and opportunities for networking in their local and regional economies. No funds are specifically directed at airports. ACOA did provide direct funding to assist in airport transfers and assess economic opportunities. Airports had the opportunity to use monies from the Canada Infrastructure Program if they met program criteria and local municipal priorities. Both organizations expressed an understanding of the issues that impact the financial viability of the airports (e.g., maintenance of the physical infrastructure, airline restructuring, and competition among airports and with other modes).